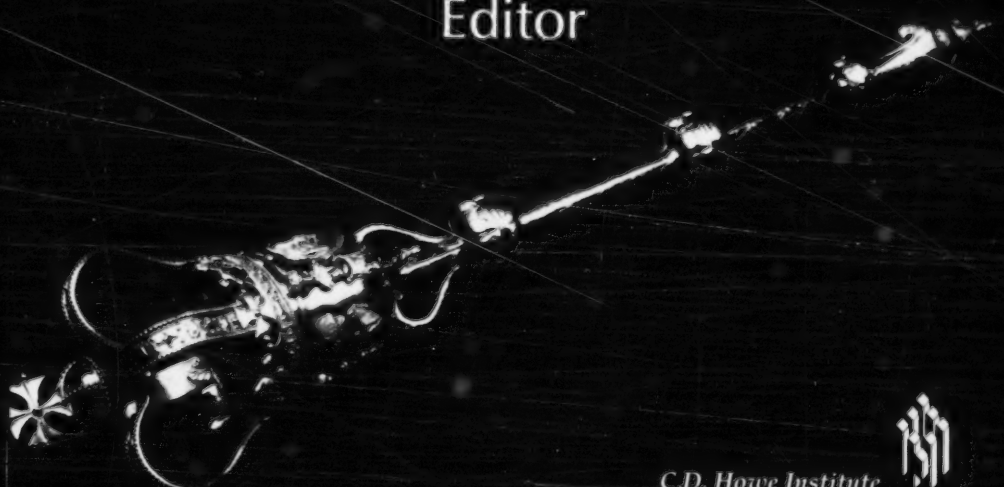




Who Decides?

Government in the New Millennium

Richard M. Bird
Editor



C.D. Howe Institute



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C.D. Howe Institute

125 Adelaide Street East

Toronto, Ontario M5C 1L7

tel.: 416-865-1904; fax: 416-865-1866

e-mail: cdhowe@cdhowe.org

Internet: www.cdhowe.org

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C.D. Howe Institute

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Recent C.D. Howe Institute Publications inside back cover

Foreward

Public governance has been a common theme in Canadian history since the constitutional talks that led to Confederation in 1867. Debate continued over the next century and a quarter on new approaches to governance including the Charter of Rights and the amending formula (incorporated in the Constitution Act of 1982) and other exotic proposals including new approaches to electing members of Parliament, voting by referendums and a Triple E (elected, equal and effective) Senate. Prime Minister Paul Martin recently proposed substantial parliamentary reform, giving back-bench MPs more power in committees, for example, and during the 2004 federal election campaign, New Democratic Party leader Jack Layton called for proportional representation. Recently, British Columbia undertook a major consultative effort that could lead to significant democratic reforms, while other provinces have taken more modest steps such as moving to fixed dates for elections.

Many of the recent efforts at democratic change reflect a growing dissatisfaction among Canadians with our democratic institutions. The federal election had a turnout of little more than 60 percent of eligible voters — one of the lowest in Canadian history.

This volume brings together a number of leading experts who examine various issues related to "Who Decides". The main theme of the book is well-articulated and skillfully presented in the introductory essay by Editor Richard Bird. People care about results, not just the process of getting to results. However, political institutions and processes, from bicameral legislatures, to voting systems and decentralization of expenditure and tax powers to provincial and local communities, have a major effect on the behaviour of politicians and the outcome that results from their conduct. It is critical for Canadians to understand how different political institutions can affect policy.

I wish to thank Richard Bird and Danielle Goldfarb for organizing the conference that gave rise to this volume, as well as the excellent contributors to both the conference and the volume. I am especially indebted to Stephen Jarislowsky whose passionate con-

cern about Canadian democracy led to his support for the organization of the conference and the publication of its proceedings. Also, my thanks for the hard work taken on by the Institute's Editor Kevin Doyle, and assistant to the editor and cover designer Priscilla Burry, as well as copy editors Lee d'Anjou and Barry Norris, who undertook the sometimes challenging task of getting the volume published.

Jack M. Mintz
President and
Chief Executive Officer



An Introductory Essay

Richard M. Bird

Canada and Canadians have done well over the last century by almost any standards. More people live better in this country than ever before. Governments, good and bad, have managed to deliver the good life to most of us, or at least have not prevented it from arriving. Any readers who may doubt how well we are doing in comparative terms should look at John Richards's chapter in this volume and the sources cited there.

Nevertheless, many Canadians seem increasingly unhappy with our system of government. They feel that while it may have worked in the past, it now seems to be working less and less well for them.¹ The changing world economy, the new continentalism of our economic policy and the resulting ever more marked domination of the United States in our lives, the continuing uncertainty about separatism at home and terrorism and war more generally — such pressures accentuate the unease that many people feel.

On the other hand, recent technological changes have, in principle, made feasible completely new forms of citizen participation in government, if we want them. Various countries around the

I am grateful to Jack Mintz and Finn Poschmann for helpful comments. I am even more grateful to Danielle Goldfarb, who not only provided helpful comments but also did most of the hard work of organizing the conference.

- 1 As Ken McKenzie notes in this volume, only 22 percent of respondents to a recent poll thought that government policy reflected the interests of the general public. Exactly what such numbers mean may not be clear, but it is certainly evident that a lot of people seem to be somewhat unhappy with how we are governed.
-

world are beginning to experiment with limited forms of "transparent government," and "participatory democracy" at least to some extent. An obvious question thus arises for Canadians: to what extent are new forms of political organization and restructured political institutions now practicable, desirable, and perhaps even necessary, if Canada is to continue to be one of the world's lucky countries. So far, the country has survived, indeed grown and thrived, with a set of political institutions that has changed little in essentials for 137 years. But is this the best we can do? In a nutshell, this question was the one posed to the group of Canadian and foreign experts and practitioners who took part in a November 2002 conference, held by the C.D. Howe Institute in Toronto, that led to the present volume.

Although far from complete in its coverage of this vast subject, this little book nonetheless casts new light on some basic issues related to the interaction among political institutions, policy outcomes, and citizen satisfaction — or lack of it. Unsurprisingly, given the breadth and complexity of the issues, neat solutions do not emerge from this discussion. But it does raise some interesting and important questions that everyone concerned with making Canada a better country should take carefully into account in beginning to think through how we, as a society, can grapple effectively with the myriad changes to which we are, willy-nilly, going to be subject over the years to come.

The relevant questions come up at many levels of discourse. Current and recent discussions of campaign finance, independent voting by members of parliament (MPs), elected senators, and the like are typical. Much in the Canadian tradition, most such discussions are about small, incremental changes, not radical reformulations of political institutions. This approach may be — probably is — not only what we will use (if we use anything) but what we should do.² Nonetheless, we should also consider more basic questions.

2 As I argue at length with respect to the particular policy area of taxation (Bird [1970] 2002).

May the answer, or part of it, lie in more direct democracy or, on the contrary, in politicians who pay less attention to opinion polls? In more federalism or less? In more citizen empowerment or less? Irrespective of where the answer or answers may lie on these various spectrums, how can or should we alter our existing political institutions to cope better with the uncertain future? These questions are not small, and the diverse approaches taken to them in the papers collected here illustrate only a few of the many ways in which we may move in the future in an attempt to grapple effectively with issues.

Such matters doubtless seem terribly abstract not only to the proverbial man or woman in the street but even to many who spend their lives thinking about such things. We are all — as Preston Manning notes in the speech included in this volume — more at ease in dealing with questions of gopher poison than how to spend \$6 billion. Even harder is connecting our discomfort about some aspects of the results of the policy process with the choice of institutions within which that process plays itself out. Yet it is at that highly rarified level that we have to deal with the fundamental questions raised in this volume: Who should decide? How should whoever it is decide?

The conference showed both that the democratic ideal is far from dead in Canada and also that we are far from agreement about exactly how best to attain that ideal. Some participants wanted more ways for individuals and community groups to be heard in the political process; others seemed to like things more or less as they are, while still others thought that the answer is to select "better" leaders who need not necessarily be more popular but have the courage of their convictions and act in what they think to be the best interests of all, regardless of the political consequences for them.

The balance of this brief introduction sets out in a little more detail the issues originally posed to the authors and discussants. It then outlines how their answers, which are presented in this book, and some of the discussion at the conference itself, relate to the broad questions posed with respect to Canada's political institutions: essentially, how are we doing, and how can we do better?

Considering the Setting

Canada today is not the Canada of 50 or 100 years ago. The world has changed enormously over the last century. Empires have risen and fallen. New countries have emerged. Old countries have disintegrated. Nations have fought wars. Population has soared. Living standards have risen enormously for many, though much more for some than for others. Technology has changed the world in which we live in many respects, most but not all beneficial. Understandably, much has been said and written in recent years about the new economy. Much less has been said about the new polity, however, perhaps because at first glance there seems to be much less to say.

Yet, although the evolution of political institutions notoriously lags that of economic markets, life in the political sphere has also changed over the last century. Around the world, many more people than ever before in history now live in some kind of democracy and have, at least occasionally, some limited say in how they are governed. As in the 19th century, however, the most important political institution everywhere continues to be the nation-state. Moreover, surprisingly little has changed in the basic structure of most established democracies in recent years. Certainly, this is the case in Canada.

The Fathers of Confederation, one suspects, would have no difficulty in recognizing today's versions of the basic political institutions they created in 1867. In the world at large, however, many variants of democratic institutions exist and, to varying degrees, operate more or less successfully. We see different voting systems, different legislative structures, different types of party organization, different roles for different levels of governments, different relations among the legislature, executive, and judiciary and very different levels of popular participation in the political process.

As Ken McKenzie discusses in his C.D. Howe Institute Benefactors Lecture (2001), over the last few decades scholars have increasingly explored the relation between such political institutions and economic results and are finding many intriguing, though yet-not-well understood, linkages. One example is that public spending as a proportion of gross domestic product (GDP)

is less under presidential regimes than parliamentary governments. Another is that social transfers are smaller when the electoral system is first-past-the-post, rather than some form of proportional representation. The world thus offers a potentially rich laboratory of experiments in different governance structures that may be associated with different policy outcomes. What can Canada learn from this experience?

Moreover, technological developments seem to be encouraging further possibilities, even in large countries. For example, holding instant referendums on virtually every policy decision of any government appears perfectly feasible. Would a move in this direction be a good idea? Why, or why not? What we get in the form of policy depends, it seems, on how we collectively decide to organize ourselves as a society — “institutions rule,” at least to some extent, as the point has been put. Academics interested in political economy, political activists who want to change policy, and ordinary citizens concerned with what is going on in the world face few matters more important than deciding how to decide.

Reforming Political Institutions

Perhaps the first and most obvious place to look when considering who decides is at the formal political institutions in which laws are formulated and made. Over the years, commentators and analysts have suggested many possible reforms to the traditional political institutions of Canada's Westminster-style parliamentary democracy, seeking many different objectives: to curb the power of the prime minister's office (PMO), to reflect the wishes of the people more accurately, to change the way in which political parties function, and so on.

Among the many questions that arise in this context are the following:

- What would be the effects of introducing a fixed election date, thus removing what is often seen as a major advantage for the government in power?

- Would a move to some system of proportional representation (PR) be desirable?
- Which of the many possible variants of PR would be preferable?
- How might such a change affect the size and growth of government?
- Should voting be made obligatory?
- Are coalition governments inherently weak?
- Would such governments pay more attention to issues of distribution than to growth?
- Would more attention to distribution be a problem?
- How would legislative behaviour change if party leaders were bound by caucus vote?
- What difference does it make how party leaders are chosen?
- Does it matter how committees are organized in Parliament?
- How should political parties and election campaigns be financed?
- To what extent does the judiciary play a role in the political process?
- How should judges be chosen?
- Is the system attracting the right people for the job?
- What can and should be done to get better people into politics — or does it matter?
- Why not select MPs, the members of provincial legislatures, and municipal councilors, like jury members, by lot?
- What are the implications of different systems of setting the pay of politicians, and how, if at all, should their pay levels be related to those of civil servants and judges?
- Would better pay produce better politicians? Better officials? Better policies?

Some of these issues have been extensively discussed in Canada in recent years. Others have not, but came up in the conference discussion. Still others, perhaps because they are considered completely beyond the pale — for example, the idea of selecting representatives by lot — do not appear to have been discussed seriously anywhere. Yet, as revealed in parts of several of the conference papers — for example, Ron Wintrobe's discussion of why Canada

is not a dictatorship, and John Richards's explanation of why Canada is not like Bangladesh — posing extreme alternatives is sometimes an illuminating exercise. How can one tell if only incremental change is desirable unless one at least thinks about the implications of radical change?

Although such blue-sky thinking appeals to some people, many readers will probably be grateful that this volume's paper by Ken McKenzie, which deals specifically with reforms in political institutions and their possible implications for policy, takes a generally incremental approach to the subject. McKenzie, like Preston Manning, focuses on such questions as voter participation and reforms in parliamentary committees. At one level, his argument is simply that good policy analysis is never institution-neutral, but must always be sensitive to the key features of the particular political institutions within which policy is formulated and implemented. At another level, however, McKenzie's argument is that in reforming political institutions, as with any change, one must be wary of "unintended" consequences. Drawing on the growing political-economy literature, he notes in particular that efforts to reduce the so-called democratic deficit by reducing the (temporary) monopoly power a majority government holds in our system might result in more spending than "we the people" really want.

Whatever one may think of this particular argument, an important general point that emerges from the McKenzie paper is surely right. When an institutional equilibrium exists — as one clearly does in the astoundingly stable Canadian political system — changing one component of it usually necessitates changes elsewhere in the system. For example, McKenzie argues, if one reduces the power of the PMO, one had better be prepared to put some other compensating checks and balances in the system to avoid unintended changes. As Albert Hirschman (1967) noted years ago, actions have no such things as side-effects; there are only effects. Good evaluations of reforms must take into account all relevant effects, not just those related to the specific objective for which the reform is made.

Comments

In his comments on the McKenzie paper, British economist Tim Besley, himself one of the leading practitioners of the dark art of analyzing political institutions, emphasizes that the self-interest motivation underlying the economic approach, although powerful, does not tell the whole story. Partly for this reason, he stresses the importance of the incentives McKenzie emphasizes, and also selection. What matters is not only what is done, but who does it and for what motives. Besley further stresses the role of the media in monitoring and exposing what really goes in politics, noting that Bismarck's famous dictum — to retain respect for sausages and laws, one must not watch them in the making — may be one reason for our present winter of political discontent in this era of investigative and sensationalist journalism.

Besley concludes that we do not know nearly enough about who goes into politics and public service, or why they do so. Of the Canadians who made such a choice in recent decades, a leading exemplar is surely Donald Macdonald, *inter alia*, a former minister of finance. Quite appropriately, he is the second commentator on the McKenzie paper. In true Canadian political tradition, Macdonald takes what some may consider a somewhat partisan stand on the reasons for the present malaise surrounding federal politics, but he agrees with Besley on the importance of the role of the media in affecting policy. Macdonald's spin is interestingly different, however, in that he rightly stresses that a key job of any politician in a democracy is to persuade the electorate that the policies proposed are correct.

Taking Macdonald's position further than he may want to go, readers may perhaps infer from his comments on Ontario's recent reversal of policy on the privatization of the electricity market that the former High Commissioner to London might even accept the corollary: If the public does not accept a policy, it should not be implemented, no matter how good it might be in some respects. Under this rule, would we have a goods and services tax (GST)? Would we have a free trade agreement with the United States? Would we be better or worse off as a result? Under our present system, if a majority government wants to do something, it can. If peo-

ple do not like what is done, they can vote the government out in the next election. As indeed they did. Of course, this is not the same as saying that a policy should not be implemented until it is accepted. The fact is that we still have both the GST and free trade — if not the party that put them into effect.

General Discussion

The subsequent general discussion made it apparent that many of those present were what might be called true Canadians in that, like Donald Macdonald and indeed Ken McKenzie, they think we are doing quite well with our present system and no serious evidence suggests that our existing political institutions require any real changes. The irreversible policy disasters doomsayers so frequently predicted as a result of the alleged democratic deficit have not occurred so far and, many appeared to think, were unlikely to do so. A carefully considered incremental change here or there might be all right, but the prevailing idea seemed to be that we can keep on successfully muddling through in the future as we have in the past.

A cynic might say that this overall contentment reflects the fact that being present at the conference was, to some extent, evidence that one had done quite well under the current system. In contrast to the general acceptance of the status quo, a vigorous debate arose in response to Tim Besley's emphasis on the importance of getting good people into the political game. Many speakers agreed about the critical importance of selecting decision makers who somehow have a sense of what might be called *trusteeship*, (though no one seemed to have a clear idea of how to do this). Some were more skeptical, noting that it does not seem to be a good idea to have a political system that performs satisfactorily only if managed by saints rather than by ordinary human beings.

Institutions should, as one participant said, be robust in the sense that they perform acceptably even if those who run them are not always chosen from the best and the brightest. The cynic mentioned above might reflect that, by this test, Canada's quite good performance (see, for example, the comparative references in John Richards's paper later in this volume) suggests that its current institutions must indeed, as most of those present seemed to feel, be good.

Limiting Political Opportunism

In different ways and perhaps to different degrees, all three presenters in the opening session appeared to accept that the people rule in Canada, and that they should do so. Nonetheless, no matter how politicians are chosen and no matter the precise details of the formal political institutions within which they function, the reality in any large, complex modern society is usually that those who lead inevitably end up making decisions at some remove from those whom they supposedly serve. An eternal central problem of representative democracy is thus how and to what extent to constrain political decisions in order to reduce opportunism and to ensure that, to the extent feasible, politicians serve the public interest rather than themselves or their particular friends.

Among the questions that might perhaps be considered in this context are, for instance:

- Is there a place for constitutional limitations on the power of government — for example, balanced budget rules, limits on taxation, and so on?
- Should Canadians consider a move to a presidential system of government?
- Should the power of the prime minister be limited? If so, how?
- Can existing Canadian political institutions be redesigned in other ways to reduce the room that politicians (and officials) have to make decisions that are not in accord with the wishes of their constituents?
- Should institutions be so redesigned?

The conference's discussion of this topic, although focused almost entirely on the last of these questions, was particularly interesting and lively, in part because of the provocative way in which Ron Wintrobe approached the question in his paper on "The Canadian Dictatorship."¹ Drawing on his previous creative analy-

3 The title of Wintrobe's paper is of course a play on the title of a recent book by Simpson (2001).

sis of the economics of dictatorship (Wintrobe, 1998), in this paper Wintrobe considers seriously the proposition some have put forth recently: that what Whitaker (1977) calls Canada's natural governing party at the federal level may, owing to the demise of effective opposition, have become the eternal government party. Although, unsurprisingly, Wintrobe concludes in the end that Canada remains a solid democracy, in the course of his analysis he raises a number of controversial points, such as what he sees as the central role of the Charter of Rights and Freedoms in counterbalancing potentially excessive executive power. In Wintrobe's view, even the strongest democracy needs to pay constant attention to ensuring the fundamentals of genuine political freedom for all its citizens, not least in times of crisis.

Comments

As Swiss economist Gebhard Kirchgassner says in his comment on Wintrobe, however, *freedom* in this sense rests not on democracy, *per se*, but on the rule of law. He argues that both democracy and the rule of law are critical elements in a modern liberal society, but that the two principles are quite different and sometimes conflicting. This conflict and representative democracy itself give rise to some potential problems. One way to escape them and to keep potentially wayward representatives in check, Kirchgassner suggests, is to introduce more elements of direct democracy, as Switzerland has done.

The second commentator on Wintrobe's paper, political scientist Tom Flanagan, gives perspective to the concern some people expressed about "one-party rule" at the federal level in Canada, noting that the roads to the good state are many, and we are certainly still on one of them. He also argues that in addition to the Charter and the rule of law, our Constitution imposes many barriers to dictatorial power. Examples are federalism and the nature of representative and responsible government.

Like Macdonald, Flanagan appears to view our current political system as not perfect but very far indeed from the worst possible. And like Macdonald and Besley, Flanagan emphasizes the

great importance of public opinion in a democracy and the need for those who would change policy outcomes to first persuade the public that they are right before spending too much time dreaming up quick institutional fixes that might, they hope, magically turn policy in the direction they consider desirable.

General Discussion

Much of the general discussion during this session turned on the difficult and convoluted issue of individual versus group rights and the role of interest groups in shaping policy. What one participant referred to as the "fundamentally anti-democratic" views of the Fathers of Confederation, as epitomized by their desire to insulate the law from the people, seems still alive and well in Canada. As in the earlier discussion of how to select those who decide, a number of speakers expressed deep distrust of populism in its various guises. Few shared either Wintrobe's very positive assessment of the role of the Charter in improving Canadian democracy (perhaps too far left for the Canadian comfort zone?), or Kirchgassner's strong views on the importance of property rights and the potential role of direct democracy in checking elite power (too far to the right?).

Reforming the Structure of Canadian Federalism

In the Canadian context, as Flanagan notes, the rough functional equivalent to some of the checks and balances associated with the U.S. constitution may be less in judicial oversight than in the nature of the provinces and their increasing strength over the last half-century or so. On the other hand, some people argued — for example, with respect to the health system — that decentralization may not be the solution but the problem. Whichever way one leans on this argument, Canada's federal structure has certainly not lacked suggestions for changes over the years:

- Is it possible or desirable for a country to become more economically unified at the same time that it becomes less politically unitary?
-

- What are the implications of greater decentralization from federal to provincial levels when at the same time there is increasing centralization from local to provincial levels?
- How might policy be affected by introducing a Senate that represented provincial interests more directly?
- Does a federal system have to treat all components of the federation equally?
- May some degree of asymmetry be necessary and desirable?
- How can a federal system deal with the increasing asymmetry that results from North American integration?⁴
- Most Canadians now live in cities, which have no significant role in our present political system. Should they be given more weight?
- How might this be done?
- Is there a role for city-regions or even city-provinces?
- If more decentralization to local governments is good, why not go all the way and decentralize more decisions about public-sector issues directly to citizens?
- For example, to what extent can local governance be implemented by groups, such as urban Aboriginals, and not just those living in territorially defined areas?

Albert Breton is a veteran of many years in the unending Canadian discussion of federalism. In his paper in this volume, he leaves aside the somewhat sterile and overworked federal-provincial turf wars to take a new and provocative look at more basic problems in Canadian democracy. To begin, he clearly distinguishes *decentralization* from what he calls *federalization* (in which powers that are transferred or delegated to particular levels of government cannot be taken back) — and then goes on to argue that what Canada most needs is for *local* communities to empower themselves.

This argument is, as Breton notes, an extension of his earlier work (Breton 1996; 2000) and turns, to a considerable extent, on the

4 Although this issue was not discussed much at the conference, some recent authors consider it. See, for example Bird (2003).

critical role he attaches to what he calls the "wicksellian connection" — the tightness of the connection between decisions on public spending and on its financing — in determining whether public policy decisions are right in the sense of being in accordance with citizens' wishes. The more closely spending and taxing decisions are linked by being made by the same body at the same time, the better government — viewed in its economic manifestation as a provider of services — will function. Moreover, different governments can then be viewed as competing to be the most efficient provider in order to maximize their political support.

Of course, no real-world country perfectly fits this (or any) theoretical framework, but Breton (1996) argues that Canada comes surprisingly close to doing so at the federal and provincial levels.

As he notes in his paper, however, Canada fails miserably by this criterion when it comes to local governments, which most directly provide public services. The logical conclusion would thus seem to be that local governments should become more responsible for their actions. Drawing on the sociological literature on empowerment, however, Breton goes on to argue that this can be achieved only when, as it were, local governments are willing to rise up, shake off the golden chains of fiscal transfers, and demand to be treated like adults responsible for making and (as Richards also suggests, in a slightly different context, in his paper in this volume) largely financing their own decisions.

The vision of mayors and councils throughout the land marching arm in arm on provincial legislatures to demand less money in transfers and more revenue-raising power of their own may strike readers as remote from present reality, which is characterized more by the outstretched municipal hand than the upraised municipal fist. Nonetheless, Breton's key points surely deserve close attention. First, the local level is where the who-decides question is most salient to the daily lives of most Canadians. Second, self-respecting people need to be essentially self-controlled, which means largely self-financed. And, third, self-respect cannot be thrust upon one from above; rather, it must be developed from within and acted upon to secure the respect of others.

Comments

Robert Inman and Alain Noël, the commentators on Breton's paper, recognize the ingenuity and power of his arguments, but both raise questions about them. Inman, a U.S. economist, doubts the extent to which even empowered local governments can really be expected to act in the full interests of their citizens when those interests obviously extend well beyond local boundaries. Moreover, for reasons essentially similar to those put forward in McKenzie's paper, he concludes that it is simply not possible to have one's cake (full citizen empowerment) and eat it too (provide services as efficiently as possible): the democratic deficit cannot be solved by pretending that this tradeoff does not have to be faced.

In his comments, Noël, a political scientist, first raises some questions about the real content and meaning of some of Breton's terms, such as federalization and empowerment. He then argues that, although Breton's approach may have some relevance to a real community — such as an Aboriginal group, which exists whether it is recognized or not — local governments in general are inherently artificial creations and hence an unlikely vehicle for empowerment, even if one could imagine a way for them to achieve such a goal. In his words, "empowerment should be left to truly disempowered peoples and communities." Whether one agrees with this position or not, in the end, as Noël says, we cannot escape politics. By this statement he means the need for some degree of agreement between the relevant social actors — he includes the provinces and Aboriginal Peoples, but not cities in this group — if reforms are to be made in what he sees as more fundamental issues, such as federal-provincial fiscal imbalance and more democratization of our democratic institutions.

General Discussion

Perhaps because of the rather unfamiliar framework within which Breton couched his argument, the discussion in this session was considerably less robust than one usually encounters in Canadian tussles over federal issues. Apart from an inconclusive debate over whether cities were too big or too small to be empowered, one of

the few points of general interest that participants raised was that the fundamental question in considering reform of our basic federal structure may be the dynamic dimension or what might be called the strength of the error-correction mechanism built into the system.

As Noël stresses in his comments, a key characteristic of federal systems is that the constitution locks in certain features. This rigidity is, as Breton also says, one of federalism's strengths. But it may also be a weakness to the extent that it means some key institutional features are blocked from evolving to meet changing conditions. The Swiss, for example, recently revised their constitution, which dates from 1848, to recognize the reality of urban agglomerations as legitimate participants within a certain range of governmental functions (Dafflon, 2003). Is Canada capable of doing the same? Should it do so? Such matters have been little discussed. They should be.

Breaking Out of the Box

Changes such as those discussed in the first three papers presented at the conference would essentially push out the margins of the existing political system — in some cases, very far out — but they would not fundamentally change its nature. Apart from Breton's controversial but not detailed discussion of a possible newly empowered role for local communities, none of the papers deals with, for example, what some consider the key issue of citizen empowerment. All over the world, one sees the rise of a civil society of non-governmental community and activist groups that some people envisage not as complementing but as replacing conventional governments. At one level, this rise of communitarianism is surprising in a world in which we are told that community is breaking down — in which we are, in the words of Robert Putnam's 2000 book title, increasingly "bowling alone" — a notion that Wintrobe explicitly disputes in this volume. Still, the rising interest in fostering essentially voluntary interest groups — from single-interest advocacy groups through traditional charitable organizations to more general protest groups — as a way to aggregate and articulate specific political concerns provides some evi-

dence of the perceived failure of the existing political institutions. However, it also leaves many open questions:

- Who speaks for ordinary citizens in a complex modern society?
- What would happen if they had the power to make their own voices heard and heeded?
- What do trends such as those mentioned mean for the traditional role of political parties in representative democracies?⁵
- Should politicians and officials be made to heed the wishes of the people through institutions of direct democracy such as referendums?
- What would be the effects of such changes?
- Would more recourse to direct democracy alleviate or exacerbate the increasing dissatisfaction, or at least apathy, with which many citizens seem to view our present political institutions?
- It is now technologically possible for Canada to have direct democracy in the sense that every citizen could be asked to vote (electronically) at any time on any issue. To what extent should such direct political participation be encouraged?
- How would it alter policy outcomes?
- Would governments be bigger, smaller, or just different?
- How does this possibility relate to political decentralization and the role of civil society?

A quite different way of thinking about many of the issues raised here is in terms of moving the margin between the public and private sectors — that is, to consider the issue of what governments should do. To gain a better understanding of the possible effects of alternative configurations of the political institutions sketched above, still other questions have to be considered:

5 Canadians may not realize how unusual our system of essentially unrelated federal and provincial parties is in the world. Parties in Canada often do less to bring together regional and national interests than to play them against one another.

- Do new methods of providing traditional public services (privatization in various forms, performance targeting, and so on) offer the possibility of, for example, better health and education services?
- Should people be allowed to self-select into various forms of service provision?
- What are the dangers and opportunities of multi-tier provision?
- When do the rights of some citizens to opt out of public provision damage — or help — the right of other citizens to opt in? This issue comes up with respect to non-reserve Aboriginal populations, for example, but it is in principle much broader.⁶

Yet another approach to some of these questions is taken by John Richards in the final paper in this volume. He begins his discussion of Canadian government in Bangladesh, which may seem a strange choice, but his argument leads logically from the importance of good government for economic prosperity, which he raises in the international context, to some powerful concerns about the potentially declining quality of government in at least some parts of Canada. Space limitations preclude describing the many rich examples Richards offers in his paper, but I can reduce his central argument to his three key propositions.

First, a crucial element of good governance is — though he does not use the same terminology — precisely what Breton earlier labelled the “wicksellian connection.” Secondly, in order to provide some support to poorer communities that cannot finance nationally acceptable levels of key services from their own resources at reasonable tax rates, he suggests an interesting set of ways of securing a quasi-wicksellian link between taxes and expenditures through means such as selecting good officials and external monitoring.

Finally, like both Inman and Noël, Richards notes that some tradeoff between efficiency and other goals (equity or participation), is inevitable at some level. And he argues specifically that

6 For two interesting explorations along this line, see Tullock (1994) and Frey and Eichenberger (1999).

Canada has likely gone too far in the direction of equity for its poorer provinces, to the detriment of their good governance

Comments

The two commentators on Richards's paper took very different tacks. Political scientist Stefan Dupré explores one of the questions initially posed to conference participants: What does globalization imply for Canadian political institutions? He spins a fascinating tale of one of the many innovative ways in which our governments individually and collectively, have been attempting to deal with what is often called the knowledge-based economy (which old-style monarchists may be surprised to learn is what KBE now stands for among policy wonks).

Dupré tells his story from the perspective of one who has been closely involved with the events he recounts. As the cases he discusses show, all of the forces of "federalism, democracy and citizen empowerment" seem to be interacting nicely in the KBE.

The other issue he raises, however, is the total lack of clarity about whether the convoluted political and budgetary processes being followed in this area will result in either good policies or happy people.

Finally, in the last formal comment in the volume, lawyer and economist Michael Trebilcock comes out swinging at Richards's key proposition that governments perform better if they have to raise their own funds from their own people. On the contrary, Trebilcock argues, so long as the governments receiving transfers are responsive to their people, they surely have every incentive to spend every cent they get, no matter where it comes from, equally well. And contrary to the small-is-beautiful thread he sees running through Richards's argument, Trebilcock further states that the results of bigger governments (regional rather than local) may often be more beautiful — presumably in the eyes of the affected citizens, although he does not make this point clear.⁷

7 And it would be disputed by many, such as Bish (2001).

General Discussion

At the conference, Trebilock's robust defence of what an unfriendly critic might characterize as business-as-usual and the dominant elite view of politics appeared to strike a resonant note for most of those present.

A Final Note

Although many of the conference participants displayed a surprisingly high comfort level with things more or less as they are, several nontrivial themes emerged as I reflected over the papers included in this volume and the conference discussion as a whole.

First, as theory and analysis — and as McKenzie's 2001 lecture as well as his paper in this volume — tell us, institutions matter. Jack Mintz's forward to McKenzie's lecture puts an optimistic twist on this conclusion by saying that, since any given set of institutions can produce different policy choices, policy does matter. Unfortunately, subsequent work now indicates that institutions not only matter but, as Rodrik (2002) puts it, "institutions rule" in the sense of completely dominating policy choices. If one is concerned about improving human welfare, this literature tells us, one must focus not on policy reform but on institutional reform.

People may care only about results, but if the outcomes we get depend more on the way in which we decide on policies than on which policies we decide, we had all better start paying a lot more attention to institutions. The major objective of this conference was simply to begin to encourage participants to think a little more systematically about possible institutional reforms and their possible policy consequences.

But is this a real problem (or opportunity, as some might see it)? After all, despite some expressed discontent, pollsters tell us that most Canadians, like most of those who attended this conference, still seem to trust their institutions, as Wintrobe notes in his paper. They may not like the results, but they attribute them mainly to the unfit crowd in charge, rather than to flaws in the design of the ship of state. A question expressed several times at the conference was, how do we get better decision makers? Nonetheless, over the course

of the conference many participants raised questions, expressed worries, and suggested alternatives for many levels — for instance, parliamentary reforms (in caucuses, committees, staffing), electoral reforms (in boundaries, in campaign finance, in voting systems), and what may perhaps be called boundary reforms in both the territorial (cities, provinces, regions, even international regions) and the organizational (public-private, civic society) sense.

The way we do these things now developed in the past and was inevitably shaped by the ideas and interests of the time and by what was then technologically feasible. Until recently, for example, only people in the very smallest communities were able to decide for themselves about most things in the political sphere. Representative democracy may have many positive merits compared to direct popular democracy. It may, for example, be more conducive to reflective, rather than emotive, decisions. It may be capable of taking a longer view. It may enable us to select representatives who are somehow particularly able (if only because they have specialized knowledge) to make good decisions.

All of this may or may not be true. But what is definitely the case is that in the past, we really had no choice of how to conduct public business in a large democratic country: it was representative democracy or nothing. This is not true now. It is technologically feasible in this country for everyone to be able to vote on anything at any time — if we want to follow this path.

There may be good reasons why we should not do so and should instead stick with the tried and true systems we have. But there are also bad reasons for doing so, including what appears to be many elites' deep distrust of ordinary people.

In what seems to be a modern version of the ancient rationale for keeping the poor in that condition in their own interests — give them a penny more and they'll just spend it on drink — some commentators seem to think that the last thing any sane person would do is to give more power to the people. The wail is that they'll act emotionally, irrationally, and against their own long-term interests.

It may well be true that people are and would remain rationally ignorant of most public policy issues. It may also be true that few would be willing to put in the hard work needed to make such

power-sharing really worthwhile and that the process might — despite technology — be slow and inefficient (and, perhaps even more dangerously, be seized and controlled by a self-selected few). More widespread and direct political participation, like more transparency in government in general, would not only make the lives of governments more difficult, but might also bring to the surface fundamental disagreements on norms and hence increase rather than reduce conflict. And, of course, it may also be true that the result would be less growth and more redistribution. Still, are such concerns sufficiently strong to block further explorations in this direction?

If democracy, as Churchill once said, is the worst of all governments except for all the rest, might not the same be true of more participatory democracy, despite the fact that sharing power is always a scary exercise — at least for those who now have the power?

Was P.T. Barnum right when he said there's a fool born every minute, and would the fools dominate the rest of us? Or was Lincoln right when he said that you can fool all of the people some of the time and some of the people all of the time, but you cannot fool all of the people all of the time? Perhaps only time will tell us the answers to such questions as those raised, though certainly not resolved, in this volume.

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Federalization (not Decentralization) As an Empowerment Mechanism

Albert Breton

My purpose in this paper is to incorporate into the theory of competitive federalism (on which I have been working for the last 15 years on my own and with the collaboration of others) some of the propositions established as empirically valid by researchers in social work, education, social psychology, and other fields: in effect that one of the features significantly defining the marginalized and oppressed people in society is their lack of power (see, among many, M. Breton 1994; Kieffer 1984; Lord and Hutchison 1997; Perkins, Brown, and Taylor 1996; and Rappaport 1987). That research, based on existential knowledge of the problems of these people and on a systematic and critical appreciation of the practices put in place to help them has blossomed into what can rightly be identified as a theory of empowerment.

To proceed, I must adapt that theory to some realities that are fundamental to the very nature of federalist behaviours and adjustments in which the marginalized and oppressed are not, at least in the first instance or proximately, individuals and families. Thus, in the next section, I point to an essential difference between decentralization and federalism and introduce the notion of federalization. Then, in the third, I briefly set out the theory of vertical competition in federal systems, an essential component of the mechanisms that determine the assignment of powers and one in

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which the concept of empowerment can be housed. The fourth section, after a brief summary of the theory of empowerment, addresses the matter of its application to politics in federal states. To bring the various building blocks together, the penultimate fifth section indicates how local governments could become empowered. The final section offers a conclusion.

In a nutshell, the paper makes the point that local governments in Canada and elsewhere are disempowered in the sense that often the decisions they make are overruled by the provincial governments, that often responsibilities are thrown at them without the funds to carry them out, that often their boundaries are arbitrarily altered, and so on. I argue that empowerment of local governments would augment the extent of democracy.

Decentralization, Federalism, and Federalization

In much of the economic literature on fiscal federalism (and, incidentally, in other literatures as well), the federal character of governmental systems is repeatedly equated to decentralization. We should not, however, let that equivalence hide the fact that all democratic unitary states are decentralized, a few of them even more so than some federal states.¹

If decentralization is not what distinguishes federal from unitary states, what does? Recall that in respect of the problems posed by the division of constitutional powers, we have only three varieties or species of governmental systems: confederal, federal, and unitary. Each group displays variations — federal

1 The benefits and costs that those literatures impute to federalism would be ascribed, if confusion on the matter was not the norm, to decentralization. The study of the phenomenon would, in all likelihood, be interesting and, had federalism and decentralization not been equated, comparisons of the similarities and differences in the degree of decentralization in unitary and federal states would surely be instructive and rewarding.

countries differ among themselves, as do unitary states — but there are, in essence, only three kinds of governmental systems.²

What then is it that distinguishes one governmental species of system from another? The primary factor that fulfills this role is the ownership of (constitutional) powers.³ If the power to design and implement policies in matters pertaining to, say, education is assigned solely to state or provincial governments, they can, individually or serially, decide to maintain exclusive jurisdiction over education, to cede all or part of the power to another level of government, or to share the power with other levels of government — the phenomenon of concurrency. As with property rights generally, ownership is circumscribed, and it has to be policed and enforced.

In unitary states, whatever the degree of decentralization or the extent of devolution of powers, the national government owns all powers; in confederal states, member states own all powers (whichever may have been assigned to the central authority); and in federal states, some powers are owned by the central government, and others by the *läender*, republics, states, or provinces (henceforth, I call them all provinces).

The two previous paragraphs define the specificity of different governmental systems in terms of the ownership of powers on the assumption that ownership matters. One could define that speci-

2 The European Union poses a special problem in this connection because it is a governmental system that is neither fully confederal, fully federal, nor fully unitary. Article 3b of the Treaty of Maastricht, which defines the principle of subsidiarity, says in part: "In areas which do not fall within [the Community's] competence..." a statement that appears to mean that powers that had already been transferred to the Community in 1993, when the treaty came into effect, are henceforth Community powers. The implication is that in respect of those powers, the EU is a federal governmental system. However, the EU's central government in Strasbourg has been given only a power of disallowance, the positive powers being vested with the Council of Ministers, which is a confederal institution. One can either take the position that the EU is a governmental system in transition toward a federal or a confederal equilibrium or instead opine that it is really a new type of governmental system.

3 For a detailed analysis of this proposition, see A. Breton (2000).

ficity in terms of the day-to-day functioning of intergovernmental relationships, but such a strategy would hide the precise sense in which federalism differs from confederalism and unitarianism. For example, if the constituent units of a confederation repossess some or all the powers they own, as they have always done historically, it is not because they are "jealous, clashing, tumultuous commonwealths, the wretched nurseries of unceasing discord, and the miserable objects of universal pity or contempt", as Alexander Hamilton wrote in *The Federalist* 9 (1937 [1787-88], 50-51). Although the constituent units of a confederal state may well act as Hamilton says they do, they behave that way and reveal what he calls their wretchedness because they are not constrained by a system of ownership that prevents them from repossessing powers unilaterally. Given that Hamilton was fighting for federalism against confederalism, it seems clear that he was aware of this possibility. In federal states, unilateral repossession is not possible.⁴

Ownership rights concerning constitutional matters are clearly demarcated in most political systems. In some countries, however, the structure of these rights displays what could be called dissonance in relation to the variety or species of the governmental systems in which they are embodied. The matter can be illustrated by reference to Italy, a unitary state in which all constitutional powers are vested in the central government. Beginning in the 1980s, Rome committed itself to genuinely transferring to regional governments ownership of a number of those powers through a series of constitutional, institutional, and administrative means (Breton and Franchini, 2003).

I use the word federalization to refer to such transfers or delegations of constitutional powers guaranteed by commitment mechanisms. I do not think of that process as one where, as I hope to show, the real gains in efficiency and welfare that the delegation permits are available to a large number of jurisdictions. If one keeps in mind that jurisdictions such as New South Wales, Minas Gerais, Ontario, Sierre Madre del Sud, and Uttar Pradesh, among others, are unitary states in which powers within their boundaries

4 I do not address matters related to secession in this paper.

are vested in provincial governments, the potential gains in efficiency and welfare from federalization seem truly enormous. In computing these gains, one must keep in mind that the degree of federalization varies (between zero and one) from one governmental system to another and over time. That proposition should become more transparent as we proceed.

Vertical Competition

Decentralization begets competition. Indeed, that is its main virtue. A decentralized governmental system crafted in such a way as to deny all intergovernmental competition would be one that had eliminated the force capable of generating the advantages the literature claims for it: closeness of junior governments to the people, learning through experimentation, and so on.

Horizontal and Vertical Competition

In decentralized governmental systems, intergovernmental competition is organized along two different lines: horizontal and vertical. The first of these two manifestations of competition has received considerable attention in the literature, the second virtually none. The mechanism that is presumed to generate horizontal competition — competition among governments at the same jurisdictional level — was thought for a long time to be based on inter-jurisdictional mobility alone. That conception of mobility was derived from Charles Tiebout's paper (1956), which puts forward the idea that by moving to a community, individuals reveal a preference for the local goods and services it provides.

Tiebout's model has only one level of government — the local or community level — with all other public functions assigned to a central government so inactive that it is simply forgotten in much of the literature. Such a construction was and remains absolutely inimical to an understanding of decentralization and federalism. After 50 years and litres of ink, Tiebout mobility is no more than a conjecture. And for good reason. In any governmental system that

is made up of three or more tiers — a characteristic of all existing democratic decentralized systems — inter-jurisdictional mobility is a virtual impossibility: people cannot make consistent choices among jurisdictions on the grounds that Tiebout suggests.⁵

Why not? Because a citizen living in a three-tier system who wishes to consume the bundle of goods and services provided by, say, Fairfax County, but does not want to consume those supplied by the state of Virginia would not know where to reside. His or her problem could be simplified if there were other Fairfaxes located in nearby states or provinces, but it might not be completely resolved. Suppose that all the desired Fairfaxes outside Virginia happened to be in desirable Canadian provinces, but that our individual is totally averse to the bundle of goods and services Canada offers. What is he or she to do? Obviously, stay put in Fairfax, Virginia. (Breton 1996, 191–192). Moreover, even if inter-jurisdictional mobility was sufficient to generate horizontal competition, it could not undergird vertical competition because every citizen is necessarily housed in all jurisdictional tiers at once.

But we are not without a substitute. A decade and a half ago, Pierre Salmon (1987) applied the theory of labour tournaments, initially proposed by Edward Lazear and Sherwin Rosen (1981), to the issue. He argues, in effect, that if the citizens of a jurisdiction evaluate the performance of their government by comparing it to the performance of other governments at the same jurisdictional tier, they would induce their own government to do as well or better than the others and, in the process, would prompt their governing politicians to compete with opposition politicians and with governments elsewhere in the system. What I call the Salmon mechanism has two virtues. It is a complement to the Tiebout mobility mechanism (if and whenever that last mechanism is operative). Also, it can motivate vertical competition whenever citizens use the performance of governments located at other jurisdictional tiers as benchmarks to evaluate what their own government is doing.

5 Furthermore, Oates's valiant efforts (1969) notwithstanding, the Tiebout mechanism still has no documented empirical counterpart.

The initial formulation of the Salmon mechanism assumes that citizens compare the performance of their own government to that of a benchmark government in terms of the "levels and qualities of services, of levels of taxes or of more general economic and social indicators" (Salmon 1987, 32). However, as Breton (1996) argues, competition in governmental systems compels all centres of power to forge Wicksellian connections (defined in the next two paragraphs) so as to be granted the consent or vote of citizens.⁶ They evaluate the relative performance of governments in terms of the tightness of Wicksellian connections for both horizontal and vertical competition. In other words, if there are n centres of power indexed i , and if w^i ($i = 1, \dots, n$) denotes a measure of the tightness of the Wicksellian connection generated by centre of power i , with w^i normalized so that $0 < w^i < 1$, citizens rank the centres of power that make up compound governments in terms of w^i .

What are Wicksellian connections, and why is it an improvement to articulate the Salmon mechanism on them, rather than on the vector of goods, services, taxes, and other indicators on which the mechanism has hitherto been expressed? A Wicksellian connection is a link between the quantity of a particular good or service supplied by centres of power and the tax price that citizens pay for that good or service. Knut Wicksell (1964 [1896]) and Erik Lindahl (1964 [1919]) show that if governments look at decisions regarding public expenditures and their financing simultaneously and under a rule of (quasi) unanimity, a perfectly tight nexus between the two variables would emerge. Breton (1996) argues that competition among centres of power, if it were perfect and not distorted by informational problems, would also generate completely tight Wicksellian connections.

In the real world, competition is, of course, never perfect and informational problems abound; as a consequence, Wicksellian connections are less than perfectly tight. Still, as long as some competition exists, there will be Wicksellian connections.

6 For a defence of that assumption, see A. Breton (1996, 48–57). See also the literature on probabilistic voting in, for example, Calvert (1986).

The virtue of a Salmon mechanism expressed in terms of Wicksellian connections is that a given citizen can compare performances in terms of a standardized variable, no matter what the respective levels of the jurisdictions being compared. A variable that serves that purpose well is the size of the utility losses inflicted on citizens whenever the volume of goods and services provided by centres of power differs from the volume desired at given tax prices. To put the point differently, citizens experience the same kind of utility losses from decisions made by governments whatever their jurisdictional tier. The goods and services supplied may differ, but the efforts to achieve tightness in Wicksellian connections will not.⁷ Indeed, the ability to compare performance horizontally is likely to reinforce the ability to execute vertical comparisons and vice versa.

Under different guises, the Salmon mechanism has been empirically documented. Following the path-breaking exercise of Besley and Case (1995), we now have studies by Ashworth and Heyndels (1997), Büttner (2001), and by Schaltegger and Küttel (2002). The mechanism is empirically robust.

The Mechanisms of Vertical Competition

How does vertical competition manifest itself? When powers are assigned to different levels of government, the assignment is never precise or explicit enough to cover all possible contingencies. Adapting the theory of incomplete contracts, which tells us that cost considerations prevent writing contracts that spell out all contingencies over the relevant future and the courses of action that should be adopted if any of these unforeseen contingencies materializes, we can say that assignments are always incomplete. Constitutions or other documents that spell out the assignment of powers must, therefore, also be incomplete. As a consequence, governments at one jurisdictional tier can always invade — make inroads,

7 As in the tournament model, Nalebuff and Stiglitz (1983) suggest the comparison of performance is more precise if the random disturbances affecting performance are common to all centres of power, instead of being idiosyncratic to each.

incursions, or forays into — the policy domain of those at a different tier. The invasions need not actually take place; that they are possible is sufficient.

We can assume that governing politicians attempt to maximize expected consent. The implication is that, given tax prices, these politicians will endeavour to supply their citizens with goods and services (including redistribution and regulation) in quantities and qualities that match as closely as possible what these citizens desire. As a consequence, governing politicians will invade the policy domain of governments located at other tiers only when they expect the invasion to increase the consent their citizens grant them. Sometimes the incursion will not be successful; it will then be transitory. At other times, however, it will be successful and become permanent. In this second case, the new arrangement will, in time, become entrenched in a constitutional document or in a convention to which all parties acquiesce. When that happens, vertical competition will have led to a new permanent division of powers between jurisdictional tiers.

This mechanism is important. It generates reassignments of powers that reflect the relative efficiency or comparative advantage of governments at different tiers to generate tight Wicksellian connections in respect of particular bundles of goods and services. Vertical competition, driven by the modified Salmon mechanism, thus leads to the assignment of powers according to which the provision of goods and services by governments at all tiers is as efficient as possible. In other words, vertical competition generates an assignment of powers that allows governments to supply goods and services at the lowest tax price possible. It exists because of, and is activated by, the desire of all centres of powers at all tiers to maximize expected consent.⁸

In the absence of a commitment mechanism, vertical competition breaks down whenever a senior government, such as the government of Ontario, can treat the junior governments of cities and

8 Vertical competition may also lead to the creation of new permanent or transitory tiers if they will increase supply efficiency.

towns within its jurisdiction as its creatures — that is, as bodies that can be instructed to do this policy and undo that one.

Before addressing how Canadians might deal with vertical-competition failure — with an absence of property rights in powers — we must pause briefly to get a grip on the notion of empowerment.

Empowerment and Its Application to Politics

The word empowerment is now in common use. It is often found in public documents (the "Republican Contract with America" as introduced by Newt Gingrich is an example) and in the utterances of individuals in positions of power who are seeking to defend a policy or activity on the ground that it will empower one group or another in society. Often the usage sounds as though these writers and speakers could bestow power as a grace on disempowered persons or groups.

Yet the first and most fundamental principle underlying the theory of empowerment elaborated by education, social psychology, and social work theorists is that individuals and groups (collectives) cannot be empowered by someone else in the absence of institutions, such as binding covenants or contractual arrangements — which I henceforth call social or political capital.⁹ This institutional capital prevents would-be empowerers from changing their minds and proceeding to disempower those on whom the empowerment had been bestowed. The lack of capital is radical because it derives from the very nature of power, an asset that is not (possibly cannot be) shared voluntarily.

At any one time, consequently, society has two different sorts of disempowered individuals or groups: those who possess what can be called apparent power, which is power bestowed and therefore re-possessable; and those who are completely lacking power. The difference between the two is only a matter of degree.

What does it mean to be disempowered? Simply, that a person or a group does not have the resources to make and implement

⁹ Depending on whether I am dealing with groups of individuals or with institutions.

autonomous decisions. In some circumstances, the volume of resources over which an individual or group has command may be so small that disempowerment is nearly complete. But in general we can expect the degree of disempowerment, d , to fall as the volume of resources, r , that an individual or group can expend increases, so that with $d = g(r)$, we have $g' < 0$. The necessary implication is the existence of a threshold, d^* , such that for $d < d^*$, the individual or group ceases to be disempowered.

The threshold or thresholds depends on the persons or groups being considered and also on the activities or processes over which power can be exercised. If the activities are directly related to the welfare of persons (such as obtaining food, clothing, and shelter), one expects the threshold to differ for each activity. The degree of disempowerment also varies from activity to activity, being greater for, say, obtaining food than for obtaining shelter and for obtaining shelter than for obtaining clothing.

Achieving Empowerment

If someone else cannot empower individuals and groups, who are the potential agents of empowerment, and how is empowerment achieved? The answer to the first question is, somewhat paradoxically, at least at first blush, that the agents of empowerment are the same people and groups who, at any moment, are disempowered. In other words, unless they empower themselves, they will remain disempowered. The answer to the second question varies depending on the person or group seeking empowerment. To put the point differently, the technology of empowerment differs for economically marginalized individuals and groups, for visible minorities, and most certainly for local governments.¹⁰

For individuals and groups to achieve empowerment, they must receive support from institutions, which are in the nature of social capital. That capital is costly to accumulate — it requires

10 For an attempt to describe the technology of empowerment for politically, socially, and economically marginalized groups, see Breton and Breton (1997).

time, effort and energy (stamina), money, and so on — and is consequently a worthwhile investment only if it will yield a stream of advantages over time. For politically, socially, and economically marginalized groups, A. Breton and M. Breton (1997) show a stream of benefits associated with the capital that accrues to the newly empowered themselves and, additional to that stream, a flow of benefits that raises the welfare of society as a whole. In other words, the empowerment of persons and groups, anchored in social capital, has both a private and a social yield.

The private yield derives from an invigorated sense of self and the virtues associated with that new condition. That proposition needs no defence. The social yield is a consequence of an improvement in the working of democracy. To understand this point, we must abandon the concept of interest groups (a concept rooted in a model of the public sector from which politics is absent) as exclusively concerned with rent seeking. Interest groups are better called demand lobbies and thought of as organizations, in competitive interaction with each other, that are also engaged in conveying information from their members to governmental centres of power and from the latter to the former. This view makes it apparent that these demand lobbies play a welfare-enhancing role in society because they can make the preferences of their members count in public sector decisions. In addition, lobby members can be informed why some of their preferences have had to be disregarded in coming to a decision.¹¹

If some persons or groups are disempowered and therefore, by definition, not members of any demand lobby, they are absent from the competitive interaction, and the equilibrium supply of goods and services by governments is suboptimal relative to the supply that would be forthcoming if everyone's preferences were made to count. The social yield of empowerment, anchored in social capital, is an improvement in the bundle of democratically provided goods and services.

11 For a detailed defence of that view and a description of the process of competitive interaction, see A. Breton (1996).

Local Governments

The basic assumption of this paper is that local governments in a decentralized governmental system, such as Canada's and many other countries, are disempowered. Moreover, like disempowered individuals and groups, they cannot be empowered by others. They cannot, to be precise, be empowered by provincial governments or by the courts. If they are to become empowered, local governments will have to empower themselves.

The empowerment of local governments, were it to be achieved, would manifest itself in the creation and accumulation of political capital, a form of capital that is institutional in character. In the absence of institutions, such as constitutional provisions; formal or possibly informal contractual arrangements that are tractable; statutory dispositions; binding commitments, and courts and their jurisprudence, political capital cannot exist and local governments are *de facto* disempowered. Political capital, embodied in institutional structures as the foundation of local government empowerment, is costly to create and to accumulate.

Once created, however, political capital would yield a stream of benefits to the advantage of local governments themselves and to that of society at large. Because this stream of benefits is, in the first instance, the proximate obverse of the costs of disempowerment, one can begin discussion of the benefits of empowerment by looking at the costs of disempowerment.

The existing literature on the tribulations of local governments focuses (as is to be expected, given the ruling paradigm) mostly on the costs of provincial-local centralization and, to a degree, decentralization. I suggest that this literature makes a lot more sense if it is understood as related to the costs of disempowerment.

I propose, in other words, that we read this literature as pertaining to disempowerment revealed by incessant turmoil resulting from provincial governments delegating powers and responsibilities with or without the financial means to implement the policies to which they give rise; reclaiming powers and responsibilities more or less without explanation; disallowing *bona fide* decisions of local governments; redrawing territorial boundaries

of local jurisdictions; changing the rules of representation; deciding when and for what purpose local governments can and cannot borrow; defining and redefining tax bases; capping local tax rates, and deciding who will and who will not be taxed locally — a veritable insanity. Roch Bolduc well summarizes some of the consequences of this state of affairs:

Frustration des citoyens devant l'écart entre les besoins perçus localement et les mesures vécues, désenchantement, aliénation, sentiment d'isolement et d'éloignement des citoyens à l'égard de leurs institutions.¹² (1980, 69)

Disempowerment also leads to local politicians and civil servants' lack of interest in their responsibilities, to inaction, to corruption, to the co-option of good personnel by other public and private agencies, and to opportunism. All these behaviours are consequent on provincial decisions that are time inconsistent.

Empowerment — the forcing of time consistency on provincial decisions and actions concerned with the affairs of local governments — can be achieved only through some sort of entrenchment of the powers assigned to local government: that is, through the provinces committing themselves to stop being bedlam managers of local government affairs. Though the governmental system may not be a three-tier federation *de jure*, it will be *de facto*.¹³ In other words, the provincial governments' current monopoly of nonfederal powers must be broken and replaced by a regime in which local governments can engage in genuine competition with their erstwhile masters.

Empowerment consequent on some entrenchment of local powers would eventually lead to vigorous productive vertical competition between provincial and local governments. In other words, empowerment would not mean that local governments —

12 "Frustration of citizens at the gap between locally perceived needs and actual solutions, disillusion, alienation, a sense of isolation and distance of citizens vis-à-vis their institutions" (my translation).

13 In some U.S. states, as well as in Brazil and Mexico, local governments are empowered through a constitutional entrenchment

any more than newly empowered persons and groups — would obtain all of what they wanted. However, because they were empowered, their voices would be heard and reflected in equilibrium outcomes.

The Empowerment of Local Governments

Provincial governments cannot empower local governments. One can go a step further and assert, without fear of being contradicted, that provincial governments would be hostile to the empowerment of what they take to be their creatures, and they would oppose any attempt on the part of local authorities to empower themselves. In Canada and presumably elsewhere, the federal government would not oppose the empowerment of municipal governments, but history tells us that the provinces would condemn and countervail the slightest overt encouragement by that government. We must also assume that the courts, including the Supreme Court, would continue to interpret Section 92(8) of the Constitution Act, 1867, as they have always done, opposing the formation of political capital that would sustain empowerment at the local level (Jones and de Villars 1999).

In this context, only a significant external shock could permit a process that would lead to the empowerment of local jurisdictions. And such a disturbance would produce results only if local governments were willing to adopt strategies that were confrontational.

The Italian Example

Recent Italian history provides an example of what I have in mind when I speak of the power of confrontation.

The 1948 Italian constitution (article 117) assigned a total of 19 powers to regions. The central government in Rome did not, however, allow the regional governments to implement policies under these powers until 1977.¹⁴ In addition, the constitutional court's decisions

14 For a brief history of the maneuvers surrounding the transfer of authority to the regions between 1970 and 1977, see Breton and Fraschini (2003).

in conflicts between Rome and regional governments were systematically to the advantage of the former. Then, in the mid-1980s, the court's judgments became more balanced and impartial.

What then happened in Italy between the late 1970s and the mid-1980s? The appearance of a number of separatist movements in the north of the republic — the most important being Umberto Bossi's Lega Nord. And with these leagues, came the adoption of confrontational policy positions and behaviour, especially by Bossi. As a consequence, the judicial and the executive branches of government, as well as parliament, responded and increased the degree of decentralization. That process is still going on, even though Prime Minister Silvio Berlusconi co-opted Bossi by making him a member of his cabinet. (The current reforms do not appear to be Bossi's.)

Canadian Possibilities

Credible threats of secession are not available to Canadian local governments. But other opportunities regularly arise although they are not exploited at present. Local governments accept the status of creature. The literature on empowerment documents that the disempowered usually believe that their sorry state is of their own making. The most important obstacle to better government through the empowerment of municipal governments may be their belief that they can never become empowered.

If we assume that psychological problem can be overcome, confrontation could be effective. But it would work only if local governments coordinated their actions and if they gained the support of the population. Coordination is costly, particularly given the variation in the problems and interests of Canadian municipalities and their governments. Not all differences would be relevant, however; only the concerns related to the relationship of local and provincial governments would matter. Once organized as one or more demand lobbies — an outcome that would depend on the costs of coordination — the group or groups would have to find ways of dealing with free-riding. We have been aware of this problem of collective action ever since Olson's seminal contribution (1965).

If local governments were unable to deal with the problem of free-riding and obtain significant support on the part of their populations, they would not succeed in empowering themselves. Being disempowered, they are not strong, and their weakness would be exploited by the provinces and by the media, which are, on the whole, ignorant of the ways and means of good government.

Interest and support might be encouraged by introducing formal political party competition at the local level (a move the provinces would also likely oppose). It is impossible to say *a priori* how such an innovation would play out, but it might bring into the open many of the local-provincial conflicts that are now hidden by the absence of party competition, and it might foster confrontation.

If local governments could achieve a meaningful degree of coordination and if they could elicit significant support from their citizens, they would have a chance of succeeding. However, they would have to avoid aiming too high. In Canada, they should not seek amendments to the Constitution. In certain cases (such as the Ontario government's mismanagement of the inspection of water quality at the time of the Walkerton scandal), they might want to sue the provincial governments in the courts. On the whole, however, the localities should look for provincial commitments that certain types of behaviour would not be used. In other words, they should look for guarantees that local governments would be able to govern without interference from above for long periods of time.

If local governments were successful in empowering themselves through the creation of political capital — court judgments, commitments, and the like — they would not have made Canada into a three-tier federation. Rather, they would have increased the federalization of the country and improved their own lot as well as that of Canadians.

Conclusion

My argument is for federalization: that senior governments be "compelled" to guarantee that they will respect decisions made by citizens at more junior levels of jurisdiction. Such a commitment is essential to empowerment of local institutions and to an extension of democracy. It is an idea whose time has come.

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Comment

Robert P. Inman

It is always a treat to attend a conference at which Professor Breton is presenting because his work is always provocative and challenging. If not a new question, then at least a new look at an old question. This paper provides both a new question and a productive strategy for finding an answer. The new question is this: How can we facilitate public sector empowerment for citizens, defined by the ability to make and implement decisions over the allocation of government-provided goods and services? Economists have not given this question much thought, because as economists we take all property rights as given. However, the study of empowerment is by definition the study of the endogenous formation of property rights.

If asked to address this question, I suspect most economists would begin by looking at horizontal competition. We would start the analysis with the state of nature — preference and technology as given, but no institutions — and then discover that to the strong belong the spoils. A more realistic and thus more interesting starting point would be to exogenously create a right to own private property and a right to vote and to then see what happens. From that starting point, the economy might create cottage companies and markets for the allocation of congestible private goods, and competitive local governments for the provision of quasi-congestible public goods. In such a world, however, externalities would abound.

There would be a need for vertical institutions to internalize those externalities and thus a need to create hierarchical firms and provincial and national governments. It is with this emergence of

hierarchical, or in Breton's words vertical, institutions that empowerment becomes an issue. When you join a hierarchical institution, you necessarily sacrifice personal control for the economic gains. In addressing his question, Breton has identified a new trade-off for economists and perhaps social science generally to worry about: empowerment vs. efficiency. Large companies are more efficient than individualized production, but now workers take orders from bosses. Large governments are often more efficient than small local governments, but now your vote is no longer decisive, except with a probability of .00001 or smaller. In hierarchical organizations our dollars go farther, but we don't count.

The typical economist's reaction to such a trade-off, I suspect, is to say, "So what?" If the economy performs more efficiently with a hierarchical organization, then the hierarchical organization should be preferred. This conference and Breton's paper are right to point out that this is a very narrow view of what seems to matter in real polities. Certainly the current debates in Canada and in Europe over the importance of, and possible institutional remedies for, a democratic deficit raises doubts about the narrow view. In the United States, these same concerns for citizen empowerment — we call it political participation — play a central role in recent U.S. Supreme Court decisions (Inman and Rubinfeld, 1997). Participation matters, but that said, it is very likely that a more participatory society with a more empowered citizenry is also a less economically efficient society. We have to look for ways to relax the trade-off between efficiency and empowerment. Having introduced economists and perhaps lawyers and political scientists, as well, to this new problem, Professor Breton then sketches a solution. He recommends what he calls vertical political competition.

Vertical competition can only occur in federal systems, however. Federal systems are governmental structures defined by constitutionally protected tiers of government, for example, a national government, multiple provincial governments, and perhaps even many local governments. The constitution creates these tiers and assigns policy responsibilities to each. When more policy responsibility is assigned to the national tier, we tend to favour efficiency over empowerment, while when more policies are assigned to the provincial or (for Breton) local tier empowerment is being favoured

over efficiency.

Through its allocation of policy responsibilities, the constitution is in effect choosing a point on the efficiency-empowerment frontier. But — and here is Professor Breton's second important insight — these constitutional assignments are only *de jure* property rights to policymaking. The constitution's assignment of policy rights must be enforced, but enforcement is endogenous and thus ultimately political. The constitution might assign educational responsibilities to localities, but a higher-tier government can certainly pass regulations to control taxing for schools (California) or local curriculum decisions (Kansas and Ohio). In the U.S., the Supreme Court enforces the 10th Amendment's (very elastic) constitutional right of states to make policy, but the President with Senate approval appoints the Justices. In the end, it will be national politics that determines the *de facto* assignment of policy responsibilities in a federal system.

Professor Breton's third insight is to recognize the central role that vertical political competition can play in giving citizens influence over this *de facto* assignment of policy responsibilities within the federal system. Citizens choose a preferred balance between efficiency and empowerment by choosing among political parties or presidential candidates who advocate different *de facto* policy assignments. The winning candidate in this vertical competition — in Breton's words the candidate who maximizes "expected consent" — is the candidate who advocates the most preferred "division of powers between jurisdictional tiers." He even predicts what that winning platform will be. It will be the set of assignments which facilitate Coasian-Wicksellian bargains for the provision of public goods. Since the biggest obstacle to achieving such bargains is the need to reveal citizens' preferences, winning assignment structures will favour those that best reveal citizens' willingness to pay. This will typically be decentralized, local assignments, where revelation occurs through yardstick competition (Breton's favourite) and Tiebout comparison shopping.

But how will local assignment arise as a serious campaign alternative when candidates are running for national or provincial office? Again Professor Breton makes a valuable suggestion — his fourth insight. Since each government wishes to free-ride on the

political activities of its local neighbours, local cooperation and leadership will be required. Here the U.S. experience offers examples of how such leadership might arise. Samuel Beer's (1976) fascinating history of the adoption of general revenue sharing in the United States has shown that associations of local mayors and government officials can make a difference in national policy. My own work (Inman, 1988) on the growth of intergovernmental transfers in the United States sees local public employee unions as very effective advocates for local fiscal interests. Finally, William Riker (1964) in his classic book on federalism argued for the importance, at least in the United States, of local political parties as the foundation of national political success. What these three examples have in common is a national organization capable of mobilizing local voters with local interests for the election of sympathetic national politicians. Local interests are thereby protected.

At this point, however, Professor Breton's analysis comes up short — of his goal, not mine. It is very likely true that empowering local governments in national politics will protect local interests, but such empowerment does not reveal local preferences for all government goods and services. Can we be sure that in this new regime, local interests will not now overwhelm provincial or national interests when externalities are pervasive? Can a locally beholden national politician act *locally* when there are no externalities but appropriately *provincially* or *nationally* when externalities are present? Well, maybe, if local preferences are revealed and Coasian deals can be done among the local players, facilitated perhaps by national association, unions, or parties. But to my mind and that of Meyerson and Satterthwaite (1983), probably not. And if not, we will still need to choose between efficiency and empowerment. Professor Breton's hope of improving the lot of local governments "as well as that of *all* (the word and italics are mine, but the implied spirit is Breton's) Canadians" through vertical political competition is likely to go unfulfilled. Professor Breton has not succeeded in undoing the efficiency-empowerment trade-off, but he has exposed the problem and provided a productive start towards understanding how we might ease the constraint. Work enough for one research paper.

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Comment

Alain Noël

Albert Breton's paper on what he calls federalization is a rich and insightful theoretical contribution that helps us focus on important reform issues for Canada. The piece builds on a well-grounded understanding of federalism and adds important new considerations about empowerment to develop an original and ambitious proposal for reform, one that addresses central governance problems for this country and for other advanced democracies.

Breton proposes to move beyond the dichotomous logic entrenched in the federation's division of powers — whereby jurisdictions do or do not own powers — and to federalize other political relationships. The idea is to entrench commitments on the part of governments that own powers, whereby they would refrain from acting to the detriment of more junior governments, such as cities or native communities. The constitutional division of powers would not be altered, but political relationships between the provinces and cities, in particular, would be federalized: that is, they would be institutionalized to prevent provincial governments from treating municipalities as their mere creatures.

This proposal is, in many ways, generous and appealing. It moves away, for instance, from the conventional economic representation of social actors as mere interest groups seeking rents for themselves. Like Sen (1999) though from a different perspective, Breton acknowledges that empowering persons and groups would not only help them but also improve democracy and social development.

The analysis and proposal raise a number of questions, however. First, as the work of a political scientist, it seems a few steps removed from reality. Breton's analytical argument relies on many assumptions that are, at best, problematic. Second, the proposal for reform leaves open many core issues. Who, in particular, is to be empowered? By what criteria are we to select the units or populations to be privileged? And who are the *demos*, the peoples, that need to be empowered and those that will consent?

I cannot propose answers to these questions in a brief comment. Indeed, these questions come from an argument that I do not share, and I do not think they can be answered. But they are worth raising and discussing, because they help us understand the interest — and the limitations — of Breton's contribution. Following the author, I proceed in three steps. First, I consider the paper as an analysis of federalism — the least problematic part of the argument. Second, I discuss the idea of federalization to highlight its potential, and its difficulties. And third, I discuss the chapter as a reform proposal, to see if a road between here and there exists and, if one does, whether it is a road worth taking. In the conclusion, I evoke some reforms that I see as more critical than federalization.

Federalism

There are only three species of governmental systems, explains Breton, confederations, federations, and unitary states (leaving aside the European Union), and the factor that distinguishes them is the "ownership" of constitutional powers. Regardless of the centralization or decentralization of a state, it is unitary if "the national government owns all powers" and federal if this "ownership" is shared by the federal and another order of government. In Breton's perspective, the idea of ownership is useful because it underlines the fact that powers belong constitutionally to one order of government and cannot be taken away by another, as could be the case if their exercise was simply the result of decentralization.

I agree that a federation is not merely a decentralized arrangement and that it is primarily a regime built on a constitutional division of powers. This simple but fundamental distinction between

decentralization and federalism is too often overlooked or neglected. For instance, the common use of the term "levels" to designate our orders of government is a good indication that, for many, the Canadian federation constitutes a hierarchical arrangement, a decentralized regime with a national government at the apex and provincial governments to manage affairs of local interest.¹

In my opinion, however, ownership is not the right concept. Constitutional powers are not "owned" and are not akin to property rights. In a democracy, property rights are important, indeed critical, but property can be taken away against one's will in the name of the public interest, with appropriate compensation. In a federation, the division of powers is entrenched more deeply. Orders of government do not "own" powers; rather, they define what these orders of government are. Constitutions are, as the word says, constitutive of government. We can sell or alienate something we own, but we cannot relinquish a power we have, even when all sides agree. To alter the division of powers, federated governments must change the constitution — amend the pact that holds the country together and defines what they are.

This distinction has important implications. For one thing, a constitutional order is an historical product that entrenches political decisions in a durable way, whereas "owned" powers tend to appear as a matter of convenience and efficiency. In his discussion of vertical competition, for instance, Breton moves away from the notion of the constitutional order evoked in his definition of a federation, to suggesting that the assignment of powers is always incomplete and must regularly be redefined so as to maximize expected consent. I cannot discuss this argument at length, so I simply suggest that the idea that governments or politicians seek to maximize expected consent suffers from a number of exceptions. The Quebec government, for instance, certainly did not maximize expected consent when it went ahead with municipal amalgamations. Politicians always weigh a broad variety of considerations. Ideological consistency, for instance, is often more critical than max-

1 Breton himself refers to "levels of government," perhaps simply in accordance with common usage.

imization objectives, as Downs acknowledges in his seminal work on democracy (1957). More important, the assignment of powers defies rational allocation mechanisms, whatever they are, because it is an historical product, the result of a political agreement among social actors (Bird 1986; McLure 2001). As such, it does not change or adjust easily and requires conflicts and public deliberations to evolve. Breton is closer to the truth when he presents federations as a "species of governmental systems." Species do evolve, though the process is slow and difficult.

Federalization

Breton introduces the concept of federalization to open a new area for discussion and reform: relationships between constitutional orders of government and other instances, be they cities or communities. The idea is to find an arrangement somewhere between a constitutional division of powers and an absence of institutional rules, to codify these relationships, and to force governments to make commitments and respect them.

The notion of federalization is appealing because it creates new institutional possibilities without confusing these forms of regulated decentralization with federalism. The problem here is that the theory remains undetermined and, in fact, quite fuzzy. Breton lumps together marginalized individuals and groups, native communities, and municipal governments as worthy of consideration for federalization. But how are we to decide who is to be empowered? Consider cities, for instance. Should we empower Westmount to allow it to leave the newly amalgamated city of Montreal? Or should we reinforce the new Montreal to prevent Westmount from leaving? Breton does not provide any guidance on these matters. The question is indeed difficult. If a sense of place and community are necessary, any neighbourhood could seek to be empowered (why not Le Plateau area of Montreal?).

Federalization, like federalism, simply offers no escape from politics. Before rules can be set and resources allocated, it is necessary to establish who is to decide, and on what ground. The process has to do with identities, values, and power, and it cannot be cap-

tured by simple rules. Thus federalization makes more sense for Aboriginal peoples than for cities. Whereas cities are indeed creatures of the provinces, the Aboriginal peoples have a unique constitutional relationship with the Canadian state and could claim to build on this relationship to forge new political arrangements (Macklem 2001). But Breton insists more on cities, perhaps because he sees them as closer to a new arrangement.

A Road from Here to There?

"Local governments," argues Breton, "will have to empower themselves." To do so, they need to coordinate their actions and elicit the support of the population. This is precisely what several cities did, with much energy, in their fight against amalgamation. But they failed. In part, they did so because, in the end, provincial governments have the power to decide. But more was at stake here. Consider, by contrast, the case of Aboriginal peoples. The history of their relationships with the Canadian state is largely one of oppression, of a long struggle for recognition, not often successful. Yet, First Nations have endured, and they continue to press their claims. What is at stake here are strong and convincing principles of justice, which simply cannot be denied or ignored. First Nations are not expressions of local habits or arrangements of convenience to preserve exclusive services or lower taxes. Successful or not, recognized or not, native communities always remain. A few years after amalgamations, most former cities are forgotten or reinvented as neighbourhoods.

For cities, probably no road exists from here to there, no way to force provincial governments to empower them. This statement does not, however, mean that provincial-municipal relationships are doomed to be arbitrary or capricious. Even though they do not involve something like a division of powers or even strongly anchored commitments, these relationships are very much institutionalized and governed by rules, explicit or implicit. Also, the power of provincial governments may be a good thing. Compared to Canadian cities, U.S. municipal governments are more empowered vis-à-vis the state. But U.S. cities are also more segmented and

fragmented, more poorly governed, and less livable. In Canada, the provinces have played a decisive role in the promotion of good metropolitan governance.

Conclusion

This book is about democracy, federalism, and citizen empowerment. In this context, Breton proposes to federalize relationships between municipal and provincial governments so as to empower the former. But he does not give us very convincing indications about the path that could lead to such a reform. More important, he does not make a compelling case that this reform is worth seeking because he does not address the core question of "who decides?" Should it be Westmount or Montreal? How can we know?

As with federations, the federalization of political relationships remains a thoroughly political process. We must first determine who is the *demos* — or who are the competing and perhaps overlapping *demos* — before we can consider new institutional arrangements. We must also consider what principles of justice are at stake. Given the rather arbitrary character of municipal frontiers and the lack of clear principles to defend, I argue that cities do not offer a good starting point for federalization. Empowerment should be left to truly disempowered peoples and communities.

In any case, for Canada, reform priorities should be elsewhere. First and even more difficult, the fact that the Quebec government has not approved the constitution and remains outside arrangements such as the Social Union Framework Agreement is still a concern and must be addressed someday. Second, of course, relationships with the Aboriginal peoples have to be redefined on a more satisfactory basis. Third, our democratic institutions should be improved and democratized. Fourth, the fiscal imbalance in the federation has to be acknowledged and tackled because it has the potential to undermine the constitutional division of powers.

In each of these cases, no easy road lies ahead. In today's Canada, even a discredited institution such as the Senate seems almost impossible to change. Still, if we are to talk about democracy, federalism, and citizen empowerment, we cannot avoid these fundamental debates.

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Democracy in the 21st Century: New Imperatives, Old Restraints

Preston Manning

Just this past week in our federal Parliament, a relatively minor incident — an Opposition motion to allow the chairs of Commons committees to be selected by secret ballot — became a cause célèbre when 56 Liberal Members of Parliament decided to support the motion against the wishes of the prime minister. The fact that such a tiny (though worthwhile) step could generate such alarm in the office of the prime minister and banner headlines across the land is a measure of the democracy deficit in Canada — the gap between what the practice of democracy should be and the level of democracy that Canadians are actually experiencing.

All of the papers presented to this conference — from those pertaining to the reform of political institutions and the structure of Canadian federalism to those dealing with the reinvention of government and Canada's role as a champion of democracy in a changing world — have a direct bearing on this important subject.

Personal Experience with the Growing Democracy Deficit

Other participants in this conference will present facts and figures, including the results of public opinion polling, that illustrate the decline in Canadians' participation in political processes, such as general elections, and the downward trend of public esteem for political institutions, processes, and personalities.

As a recently retired federal politician, perhaps what I can add to the discussion are some personal experiences, which both confirm and illustrate these facts and figures, and some suggested remedies.

When I first ran for the federal Parliament as leader of the newly formed Reform Party of Canada in 1988, the turnout in that general election was 75.3 percent. Twelve years later, in the federal general election of 2000, despite significant increases in the expenditures and activity levels of all the federal political parties and Elections Canada, the turnout was 61.2 percent, a decline of 14 percentage points.

With respect to anecdotal evidence of the decline of public esteem for political institutions, processes and personalities, I need only refer to a bulging file in my office containing jokes concerning politicians that people have sent me from across the country. The universal character of these jokes is their negativity. For example, from B.C., "What's the difference between a dead skunk and a dead politician on the Coquihalla Highway? There are skid marks in front of the skunk." From Ottawa, "What do you call 10 politicians at the bottom of the Rideau Canal?...A start!" And from Saskatchewan, "How many politicians does it take to grease a combine?...Fourteen, if you put them through very, very slowly."

In the federal Parliament, our senior democratic institution, morale among the members, especially the backbenchers, is abysmally low due to a lacklustre government agenda, excessive party discipline and counterproductive internal divisions on both sides of the House. On December 3, 2001, I participated in one of my last votes in the House. A \$6 billion supply bill went through in routine fashion, with most members not even knowing or caring what it was about or how many dollars were involved. But there was a noticeable quickening of interest in the House when a private member's motion was put, calling for the government to explain why it had reduced the permissible strychnine level in gopher poison to 3 percent from 5 percent. Because this was a private member's motion, it was a free vote on which members could make up their own minds.

Roars of approval went up from prairie MPs as some government members from Ontario rose to support the gopher motion.

Members who were diametrically opposed to each other on everything else came together in the great gopher coalition. Separatists and federalists, French-speakers and English-speakers, government and Opposition members, urban and rural members stood shoulder to shoulder on this groundbreaking issue. And when the measure passed by a vote of 134 to 123, members cheered and crowded around its bewildered sponsor, Leon Benoit, to congratulate him on a job well done.

I voted for the gopher motion myself, but when such a motion commands more interest in the House than a \$6 billion supply bill, there is something wrong with the system. Growing evidence of the democracy deficit raises the importance of the following questions. What can be done to revitalize public interest in democratic processes, institutions, and personalities? What can be done to overcome the constraints to democratic reform?

I will share my responses to these questions under three main headings: Institutional and Process Reforms, Fundamental Problems, and Political Solutions.

Institutional and Process Reforms

The Canadian public appears to be less and less satisfied with the outcome of democratic processes, but citizens don't necessarily connect those results to defects in political processes and structures. A more conscientious effort to link public dissatisfaction with political outcomes to structural or process defects should raise the level of public support for structural and process reforms.

Many Canadians complained, after three successive Liberal governments, that our electoral system allowed the federal Liberal party to form a majority government even though it obtained less than 40 percent of the popular vote. This result, unsatisfactory to some 60 percent of the electorate, can be linked at least in part to our use of the first-past-the-post voting system. One possible response to this defect is to change the voting system. This possibility has led democratic reformers like myself to propose a national referendum (to be held in conjunction with a future federal election) that would give Canadians a choice among the first-past-

the-post system, proportional representation, the transferable ballot, and some combination of these systems. Dissatisfaction with the results of a particular voting system could, we hope, be alleviated to at least some degree by giving people a chance to change the system.

Canadians also frequently complain about the inability or unwillingness of their elected representatives to represent constituents' views when they conflict with the party line or the will of the executive arm of government. This unsatisfactory result of our current system of representation could be remedied by freer voting.

To lessen strict party discipline in Parliament in order to achieve freer voting would not require any change in the Constitution, the Parliament of Canada Act, or the Standing Orders of the House. What it would require is a democrat in the prime minister's office who would declare that the defeat of a government motion or the passage of an opposition motion would not be considered a vote of confidence in the government.

Canadians frequently claim that, unlike the upper houses of other big federations, such as Australia, Germany, and the United States, the Canadian Senate is unaccountable to the public and completely ineffective in balancing divergent regional interests. One answer to this dilemma — one that has frequently been championed by political parties and governments in western Canada — is to require senators to be elected and to distribute Senate seats more equitably on a per-region or per-province basis. Senate reform must be presented as a solution, at least in part, to regional alienation and discontents.

Another frequent frustration of Canadian citizens is their inability to have direct input into government decisions affecting them, or to discipline elected representatives who lose their confidence between elections. Structural and procedural responses to this unsatisfactory feeling of powerlessness on the part of a significant portion of the electorate should include greater use of direct democracy measures, in particular, referendums and citizens' initiatives, and a workable recall mechanism.

This desire for greater public involvement in decision making might also be addressed by experimenting with electronic democ-

racy measures, from electronic surveying and voting, to Internet chat rooms and electronic town hall meetings on key issues, to the creation of a virtual parliament as a democratic participation and teaching tool.

From time to time, the public also complains about the results of imbalances among the executive, legislative, and judicial arms of government, although citizens rarely frame their concerns in these terms. When the executive abuses its power by compelling elected members to vote against their constituents' wishes, as occurred during the institution of the goods and services tax (GST), or when the judiciary appears to be writing new law, not just interpreting existing law, as in the case of the Supreme Court decision pertaining to prisoners' voting rights, these unsatisfactory results should generate public support for measures to clarify the lines separating the executive, legislature, and judiciary.

For many Canadians, their most direct and intimate contact with democratic government is not at the distant federal or provincial level but at the municipal level. But citizens complain that this level of government is the weakest of the three. Strengthening local government and making specific efforts to establish democratic role models at the municipal level should be pursued as part of the process of revitalizing democracy in Canada.

Finally, politicians and civil servants rightly observe that non-political and non-governmental institutions also have some responsibility for revitalizing democracy. There is a need for:

- greater support for democratic principles from business — for example, by strengthening shareholders' rights;
- interest groups to strengthen the democratic accountability of their leaders to their own membership;
- organized labour to strengthen the democratic rights of workers within unions;
- universities and other educational institutions to place greater emphasis on teaching citizenship and imparting the skills required to participate in a democratic society;
- faith communities to learn to more wisely manage the interface between faith and politics, and

- media to play a more constructive role in facilitating democratic discourse and informing the discretion of voters.

Fundamental Problems

In my judgement, all of these structural and procedural proposals for addressing the democratic deficit and public dissatisfaction with current political activities are well and good. Yet I have a sinking feeling that these measures by themselves would leave more fundamental problems untouched.

I therefore draw attention to two fundamental problems that I believe lie at the root of our inability to address the democratic deficit more successfully. The first is that our conception of democracy — in Canada and in many other western countries — has become too narrow and shallow. The second is the noticeable absence of passion for democratic values and democratic reforms among democracy's professed supporters.

If you listen to politicians' speeches on democracy or read academics' papers on the same subject, you cannot help noticing that democracy is conceptualized almost entirely in terms of processes, mechanisms, and structures. It is portrayed as a system of representation and decision making, the principal features of which are "talking heads" and "counting heads."

Surely democracy is much more than that. Democracy is an idea and an ideal. It is the idea and the ideal that every human being is of great worth and should therefore have the freedom and responsibility to participate not just in selecting leaders but also in influencing the decisions and policies of government that affect our individual and collective lives and futures.

Much has been written over the last 10 years about the difficulty of establishing genuine democracy in the former Soviet Union. There we had a situation in which people who had been indoctrinated in an anti-democratic ideology for 80 years had at long last abandoned it. But when western politicians, academics and consultants went to help democratic reformers in the former Soviet Union, what did we bring them? We brought them primarily the technology of democracy — help in establishing voting

processes, new structures, polling techniques, fundraising programs — but precious little on democracy as a value and an ideal, as an ideological alternative to the one they had rejected.

I, therefore, argue that the revitalization of democracy in Canada requires us to rediscover democracy as a value, as a great ideal, even as an ideology more fundamental than conservatism or socialism or liberalism.

We must also communicate this value and ideal with the passion that genuine idealism evokes. It is difficult to become passionate about democracy when it is conceptualized entirely in terms of process, mechanics, and structure. People rarely get passionate about such things. Yet passion is an essential prerequisite to generating widespread public support for democratic reforms.

When was the last time that you saw or heard a practising politician who was genuinely passionate about democracy? If politicians — the most active participants in the democratic process — are not themselves passionate about democracy, why should anyone else be? When was the last time you saw or heard an academic or a media person who was passionate about democracy? If professors and journalists — the people who teach and comment about democracy — are not passionate about the subject, why should their students or readers or viewers be?

How do you create or rekindle a passion for the democratic ideal? I don't know what it would take for each person in this room; all I can do is share my own experiences.

My own passion for democracy was stirred by stories of democratic action that inspired imitation — stories that were told to me originally by my parents and that I later read for myself. They included Louis Riel's use of the democratic right of petition to raise the grievances and aspirations of the Métis people on the agenda of the new nation of Canada. They included stories of democratic discourse that moved people's minds and hearts, such as the great debate between Manitoba Premier Rodmond Roblin and the last, best premier of the old Northwest Territories, F.W.G. Haultain, in a kerosene-lamp-lit hall in Indian Head, Saskatchewan, on a bitterly cold night just before Christmas in 1901. Roblin argued that the West should allow itself to be divided into provinces as the fed-

eral government desired. Haultain said that the West should stay as one big province to better counterbalance the weight of Ontario and Quebec in Confederation.

I was told and then read for myself the stories of the West's early settlers and farmers, who used democratic tools of freedom of speech and freedom of association to create the great Progressive Movement, which elected reform-oriented provincial governments and led the charge for agricultural and transportation reforms in the 1920s and 1930s. I learned how desperate Western Canadians in Saskatchewan and Alberta used those same democratic tools to organize Social Credit and the CCF (Co-operative Commonwealth Federation) to advocate systemic change to address the terrible economic and social ills of the Great Depression.

Because these stories of democratic action in days gone by kindled my own passion for democratic politics, I am hopeful that the more recent story of the birth and growth of the Reform Party and the Canadian Alliance — told in my recently released book (McClelland & Stewart, "Think Big: My Adventures in Life and Democracy" — might also kindle that democratic passion in others. The story is about a small group of people in our time who took the tools that democracy gives to everyone and used them to attempt to change the national agenda.

What does it take to create or rekindle a passion for democracy? In my case, illustrations and stories that inspire and also dreams.

When members of Parliament or provincial legislatures tell me that they have lost their zeal for democracy, I sometimes advise them to do what I did late one night about a month after I had been elected to the Canadian House of Commons. I challenged myself to see the House, not as it was with all its imperfections and dominated by party politics, but as it could be. Late one evening in 1994, after the House had adjourned for the day, I went down to the Chamber and asked the security personnel to let me in to retrieve some papers I'd left in my desk. The Chamber was only partially lit, empty, and completely silent. As I sat for a moment alone in my seat, I found that I could much more easily envision what that House should be like and might still become than I could when it was filled with partisans and the political noise of the daily session.

What might this place be like if the prime minister's chair was occupied by a democrat instead of an autocrat? What if the Speaker's chair were occupied by a strong reformer genuinely committed to the democratization of the institution? What if the government House leader was a genuine servant of the legislative majority instead of the prime minister's flunkey? And what if the majority of seats were occupied by members who truly believed in their hearts that those seats belonged not to their party, or to themselves, but first and foremost to the people back home?

Stories of democratic action from the past and dreams of future democratic possibilities are badly needed in Canada to rekindle our passion for the democratic ideal.

Political Solutions

A sound list of procedural and institutional reforms is not enough to address the democratic deficit; what is also required is a passionate commitment to democracy as an ideal. But it is also necessary to turn that passion for reform into public support for particular measures. Two means of doing this are coalition building and the conduct of an issue campaign for democratic reform.

I have become increasingly convinced that one of the principal ways of getting things done politically in the first part of the 21st century will be through the building of principled coalitions or strategic alliances.

Canadian politicians, particularly at the federal level, are singularly ill-equipped for and inexperienced in building coalitions. Our current system tends to keep partisans in water-tight compartments, and party discipline is used excessively to discourage any building of coalitions across partisan lines.

Yet we have plenty of examples of coalition building outside the Canadian federal political sphere, and I hope we may learn from them. Businesses, for example, frequently enter into strategic alliances with other businesses to increase market share, particularly when the objective is to penetrate the global market at a more rapid rate than a company can achieve by operating on its own. As is well known, it is impossible even to get a bill on the order paper

in the U.S. Congress, let alone to get it passed, unless one has mastered the art and science of coalition building — not just across party lines but across regional, demographic, and other lines, as well. In most European countries, because of changes in the electoral systems, it is becoming virtually impossible even to form a government, let alone manage it, without mastering the art and science of coalition building. I look forward to the day when all the democrats in our federal House of Commons will form a coalition across party and regional lines to push a democratic reform agenda.

I am also a great believer in issue campaigns as a means of raising particular issues on the national stage and generating public support for particular solutions.

An issue campaign is organized like an election campaign with a campaign committee, fund-raising efforts, local grassroots volunteers, an advertising campaign and extensive literature distribution. Its primary purpose is to get an issue and its solution — such as the democratic deficit and reforms to alleviate it — onto the national agenda. The aim is to get enough people expressing concern about the issue and support for some proposed solution so that when the politicians, regardless of party, send out their pollsters, they start to find two or three out of five people saying, "Why don't you do something about that?", or "Why don't you implement this solution?"

Political parties may organize issue campaigns. The Reform Party of Canada cut its teeth on two issue campaigns: the Charlottetown Accord referendum campaign of 1992 and the "zero-in-three" campaign in 1993 to balance the federal budget. But such campaigns need not be organized by political parties; in some instances, they may be more effective if organized more broadly. I look forward to the day when a broad coalition of small-d democrats, including people outside and inside Parliament and across party lines, organize an issue campaign for democratic reform that unites the idealism, the passion, and the structural and institutional changes required to overcome the democracy deficit.

Canadian Democracy as an Export

I have one further reason for believing we must revitalize democracy — ideologically, structurally, and procedurally — in Canada. That reason is not for our own sakes but for others.

As we well know, democracy deficits exist in many other countries, particularly in the developing world and in countries that have struggled to throw off totalitarian regimes but have not yet made the full transition into free societies.

Few countries in the western world are as well positioned as Canada to export democracy to these countries. The United States is hampered by the fact that it is the world's superpower; its efforts to promote democracy, no matter how well intended, are greeted with enormous suspicion in many parts of the world. Many of the European powers, in particular Britain, France, Germany, Italy, Holland, Spain, and Portugal, are also suspect to some degree because of their colonial records.

What better nation than Canada to become the world's leading exporter of the democratic ideal and the processes and institutions required to make that ideal work in practice? We should aim to become the world's leading exporter of democracy. But first, we need to get our own house in order.

If it Ain't Broke, You're Not Trying Hard Enough: Institutional Reforms and Public Policy Outcomes

Kenneth J. McKenzie

In any work dealing with the nature of our democracy the first question that must be addressed is why should we be interested in political institutions at all? Readers of this volume may consider that democratic institutions are patently important in themselves. I agree with this view, though I can think of several more concrete reasons why we should be interested in the subject. To an economist, one of the most important, and interesting, is the possible link between political institutions and actual government policy, which is, after all, the outcome of the political process. Do the rules, formal and otherwise, that define the nature of our democratic decision-making process affect policy outcomes? As Dani Rodrik suggests, this question is "simply too interesting to leave to political scientists." (1993, 356)

Until relatively recently, much of mainstream economics has tended to ignore the link with politics. Indeed, the standard welfare economics upon which much policy analysis and advice are based, explicitly or implicitly, has been institution-neutral. For many policy questions, this traditional approach has yielded important insights.

The author would like to thank Richard Bird and Ron Kneebone, as well as the discussants and participants at a C.D. Howe Institute conference on "Who Decides?", for comments.

For other issues, however, it has been less satisfactory. An example comes from the area of optimal taxation. The normative welfare economics approach tells us we should choose a tax mix that equates the marginal burden across the various sources of revenue. This basic dictum holds even when the regime is modified for equity considerations by attaching distributional weights to various tax bases and adjusted for administrative and informational considerations.

Yet, an examination of the tax mix across the countries of the Organisation for Economic Co-Operation and Development (OECD) reveals that the reliance upon various tax bases varies substantially across even developed countries. For example, the personal income tax ranges from 12 percent to 43 percent of all tax revenues, while general consumption taxes range from 5 percent to 33 percent. (OECD 2001)

Why does the tax mix exhibit such big differences among countries? One explanation, rooted in standard normative economics, is that they reflect differences in the countries' economic structures, which are manifested in differences in the marginal burdens associated with the various tax bases. This statement is doubtless true, though the differences would have to be substantial to explain such wide variations. Some indirect evidence arguing against this comes from an OECD study (Giorno et al. 1995) that reports that elasticities of the broad tax bases with respect to gross domestic product (GDP) are very similar across OECD countries.

Another explanation is that the variation in tax mix reflects differences in preferences across countries. For example, preferences for leisure may vary, leading to differences in the marginal burdens. Or preferences for redistribution may vary and be reflected in the distributional weights placed on the various tax bases. Such variations doubtless exist. But again, they would have to be fairly dramatic to fully explain the large variations.

Researchers in political economics suspect that at least part of the explanation for the variations in the tax mix (and in other variables in fiscal and other policies) arises from differences in political institutions. As I later discuss, a good deal of recent research at least suggests that this suspicion is well founded. Political institutions help determine the players and the rules of the game in which policy decisions are made, so both of these help to determine the outcome.

Returning to the question posed earlier — why is it important for us to understand the link between political institutions and policy results? — I focus on two reasons here. First, for economists who give policy advice to governments, understanding the link between political institutions and policy outcomes may cause them to alter their advice. The maxim “garbage in, garbage out” is certainly true. However, what goes in often bears little resemblance to what comes out. As economists and policy analysts, we might want to modify our policy advice — what goes in — in light of this reality.

This consideration is particularly important for think tanks, such as the C.D. Howe Institute, where the *raison d'être* is to give policy advice. All too often when asked why politicians do not follow our well thought-out and rigorously derived policy recommendations, which make perfect sense to us, we invoke the catch-all phrase “that’s politics.” If we applied the same standard of rigour to analyzing politics as we do to analyzing the standard normative characteristics of a particular policy issue, we might change our policy advice. So one of the reasons I think it important for us to understand the link between political institutions and policy outcomes is that doing so will help us to modify our normative approach to welfare economics to be less institution-neutral, which could lead to better policy analysis and advice.

Second, if we are to contemplate various reforms to our political institutions — and we appear to be very much in the midst of such contemplation in Canada — it is absolutely vital that we understand as best we can the link between those institutions and public policy outcomes. Not to do so would be pure folly or, to quote Michael Laver and Ken Shepsle, “an act of the crassest stupidity.” (1996, 287).

The debate over institutional reform must be informed by the best available research we have on the link between institutions and policy outcomes. Decisions about institutional reform are important for several reasons, not the least of which is that political institutions tend to display a good deal of rigidity and reluctance to change, which suggests that our institutions and the policies that they produce are likely to be with us for some time.

Institutional Reform and the Democracy Deficit

As pointed out in my 2001 Benefactors lecture for the C.D. Howe Institute (McKenzie 2001), many people perceive a serious and growing democracy deficit in Canada. When asked "How much do you trust government to do the right thing?" in 1969, 59 percent of Canadians responded "just about always" or "most of the time." However, in 2000, only 30 percent of Canadians expressed the same sentiment. Currently, only 22 percent of Canadians say they believe that government policy reflects the interests of the general public; the remainder say that government policy primarily reflects the interests of big business, politicians and their friends, or special interest groups.¹

The perceived existence of this democracy deficit naturally generates calls for reforms to our political institutions. An important point that I make in my Benefactors lecture, and which I will build upon here, is that reforms designed to address a perceived democratic deficit may generate what some might perceive to be unattractive, or at least unexpected, policy outcomes. There are trade-offs in institutional reform just as there are trade-offs in policy reform.

It is useful to present a simple example to illustrate this point. In an important article, Fernandez and Rodrik (1991) point out how uncertainty about the identity of the winners and losers of a policy reform can prevent adoption of a change that is attractive according to our standard normative criteria.

The basic idea (from Rodrik 1993) is as follows. Consider a democracy in which policy decisions are made by referendums and by simple majority rule. (Many would consider direct democracy under majority rule about as democratic an institutional landscape as you can get.)

Say this stylized democracy has 100 voters. The analysts at a well-regarded think tank come up with a policy proposal that would increase the incomes of 51 Canadians by \$5 each, and

1 These polling results were presented by EKOS Research Associates at a public lecture, *Exploring North American Economic Linkages*, Industry Canada, Calgary, Alberta, June 20-22, 2001.

decrease the incomes of 49 Canadians by \$1 each. The ex post net gain of the policy is \$206 ($=[5X51]-[1X49]$).

According to the standard criteria of efficiency, this policy should be adopted. Indeed, in the absence of uncertainty about the winners and losers, it would be adopted under a political system of direct democracy and majority rule; the 51 winners would vote for it and the 49 losers would vote against it. But suppose that there is uncertainty about who the winners and losers would be. More precisely, say that 49 people know with certainty that they would gain the \$5, while the remaining 51 do not know which of them would gain and which of them would lose.

Presuming that they do know the aggregate consequences of the policy, the 51 individuals who are in the dark are sure, however, that 49 of them would lose \$1. Assuming for simplicity risk neutrality, the expected benefit from the reform to the 51 individuals who are in the dark is $-\$0.76$ each ($=[(5X2)-(1X49)]/51$). Since they expect they would lose from the reform, each of these individuals votes against it and the policy that is known with certainty to be efficiency-enhancing ex post, with a net gain of \$206, is defeated.

This example underlines both of my reasons for why it is important to understand how political institutions may affect policy outcomes. First, without an understanding of the role of political institutions in determining policy outcomes, the think tank's analysts may simply resort to the old reliable mantra of "that's politics", when trying to explain why their brilliantly conceived policy is not adopted. Once they understand the nature of the link between those institutions and policy outcomes, however, they may be able come up with different policy recommendations that are conditional on the political institutions in place, and that would satisfy the "that's politics" test.

Second, implementing some sort of reform to the political process may lower the likelihood that this sort of ex post efficient policy proposal is defeated. Say the citizens of the direct democracy in our example reformed their system to require only 49 percent of the popular vote to implement a policy. That change would result in the policy's adoption. Most people would consider this institutional reform *less* democratic than a 50-percent majority rule, yet it would bring about a policy outcome that is *more* attractive according to our stan-

dard criteria. (As an aside, our first-past-the-post electoral rule sometimes leads to the implementation of policies that do not reflect the preferences of the majority of the electorate.)

Some Evidence

This example was obviously cooked to make a point. How relevant is it to the very messy real world of politics and policy? As indicated earlier, an emerging body of research suggests that it is quite relevant.

Consider, for example, findings reported in a paper by Mueller and Stratmann (2003). The authors explore the link between voter participation rates and both policy and economic outcomes. The policy outcomes they examine are government spending in general and spending on transfers in particular. The economic outcomes they are interested in are the equality of the after-tax and-income distribution and economic growth.

After controlling for several factors, they find that higher voter participation rates are associated with higher government spending both in general and on transfers. They also find that higher voter participation rates tend to be associated with greater equality in the after-tax and -transfer distribution of income. So, democratic participation tends to lead to more equality in income distribution of income.

What about economic growth? Although Mueller and Stratmann find no direct effect of voter participation on economic growth, they do uncover an important indirect effect: More voter participation is associated with higher government spending, particularly on transfers. They also find that higher government spending is, in turn, associated with lower economic growth, particularly in high income countries. Thus, higher voter participation negatively affects economic growth by increasing the size of government.

We have a classic tradeoff. In Mueller's and Stratmann's words:

For those who favor greater income equality, high participation rates can be said to have beneficial effects. For those who are concerned about the increase in the size of the government sector over the last 40 years, however, greater voter participation rates can be seen to have some costs. (2003, 2151-52).

This conclusion is relevant to much of the current debate in Canada, which has largely focused on the lack of democratic participation. For example, the decline in voter participation is often identified as one of the most telling symptoms of the democracy deficit in Canada. Critics suggest various institutional reforms to address this deficit. For example, proportional representation is often trumpeted as a way of increasing voter participation. And indeed, the empirical evidence supports the idea that some form of proportional representation does lead to greater voter participation (Mueller and Stratmann, 2003).

However, several studies also show that proportional representation is associated with bigger government, a result that provides some support for Mueller and Stratmann's findings. For example, Persson and Tabellini (2001) report the impact of government spending of several political-institutional variables, including the electoral system. They find that countries with proportional electoral systems have larger governments. Their estimates, with other size-influencing factors controlled, suggest that governments elected under proportional systems spend on average three-to-five percentage points of GDP more than governments elected under majoritarian systems, such as our first-past-the-post system. Mile-si-Ferretti, Perotti, and Rostagno (2001) also find that total spending as a percentage of GDP increases with the degree of proportionality in the electoral system. Scartascini and Crain (2000) report that multi-party legislatures — which are much more likely to arise under proportional electoral systems — also tend to be associated with higher government spending as a share of GDP.

The lack of democratic participation within government, particularly at the parliamentary level, is also often identified as a symptom of the democracy deficit in Canada. Much of the discussion focuses on the concentration of power within the prime minister's office (PMO), prompting political scientist Donald Savoie to refer to the emergence of "court government" in Canada, with the prime minister playing the role of "king" and a few select ministers and senior civil servants playing the role of "courtiers" (Savoie, 1999). The evidence that tradeoffs exist here is similar to that already discussed. For example, von Hagen (1992) examines the relationship between the degree of centralization of the budgetary

processes (which can be thought of as the inverse of the degree of democratic participation) and reliance on deficit finance in European Union countries. He finds a strong negative relationship between the size of the debt and deficit and the degree of centralization. For the three countries with the most centralized (least democratic) budgetary process within government, the deficit-to-GDP ratio was between 1.2 and 2.7 percent and the debt-to-GDP ratio was between 42.5 and 43.2 percent. For the three least centralized countries, the ratios were between 10.7 and 11.2 percent and 74.6 and 100.1 percent respectively.

Several other studies offer similar results. Alesina et al (1999) undertake a similar investigation of 28 Latin American states, Heland (2000) extends von Hagen's study of European countries, and Hahm, Kamet and Mowery (1996) study the role that the budget process in nine industrialized parliamentary democracies, including Canada, plays in the determining spending and deficits. All these analysts find a strong negative relationship between the composition of the legislature and the size of the deficit and government spending, as well as the degree of centralization of the budgetary process within cabinet and parliament.

If it Ain't Broke, You're Not Trying Hard Enough

I am not trying to argue on the basis of the above evidence that less democratic institutions necessarily lead to more desirable policy outcomes. I am simply saying that institutional reforms motivated by a desire to address a democracy deficit may give rise to policy outcomes that are not intended, not desirable, or both. My point is that we must contemplate institutional reforms with our eyes wide open and do our best to design our institutions with these insights in mind.

Purveyors of the dismal science are well used to the kill-the-messenger syndrome. Economists have long been vilified for pointing out the simple fact that trade-offs exist. A case in point is an op-ed National Post piece written about my 2001 C.D. Howe Institute Benefactors lecture (McKenzie 2001).

Professor McKenzie's lecture – about how institutional political arrangements affect government spending – didn't live up to its brilliantly witty title, "A Tragedy of the House of Commons." Indeed, while he might have been correct in rejecting proportional representation or more decentralized budget making as routes to better fiscal control, his suggestion that we should be happy with what we've got, because it could be worse, is hardly leading-edge thinking. (Foster 2001, FP 15.)

The piece goes on to describe the lecture as an example of the "flaccid Canadian academic intellectual approach to what is a potentially terminal political and economic sickness." At least the author liked the title. My point is — and was — that we should not implement reforms for the wrong reasons. Even more important, we should be aware of the fiscal pressures and tradeoffs that may arise from reforms so that we can design institutional processes to minimize them.

The Problem of Common Property

So, should we be happy with Canada's institutional arrangements? Could they be worse? At the risk of attracting the venom of reform-minded journalists everywhere, my answer is a qualified no to the first question and a definitive yes to the second.

Before expanding on these answers, I must lay some groundwork. One way of thinking about political institutions is that they evolve in response to a common property problem that inevitably arises in representative democracies. The common property is the pockets of taxpayers, and the nature of the problem is that the political benefits politicians receive are derived, in part, from their ability to deliver economic benefits to their own constituents. This situation inevitably narrows their focus. Individual politicians do not take full account of the social costs or benefits associated with their decisions. Individual members of the legislature thus have an incentive to promote policies that benefit their group or region, while not fully accounting for the costs borne by others. For example, a member may promote a spending program that benefits her

particular constituency. That program must be financed by taxes, the costs of which are spread out among all taxpayers, many of whom do not benefit from it.

Hettich and Winter (1995) refer to the common property problem in politics as a "decision externality" and von Hagen and Harden (1995) call it a "fiscal illusion". Both terms mean the same thing: the incentive to pick the pockets of taxpayers at large to finance programs that benefit narrow constituencies, and the resulting proclivity on the part of the government to overspend and rely overmuch on deficit finance.²

This proclivity can be moderated by political institutions, including fiscal rules, that act to internalize these externalities. The evidence cited above suggests that some institutional arrangements are better at doing this than others. To perhaps over simplify, the Canadian approach, in the parliamentary tradition, is to effectively grant a monopoly franchise in policy making to the executive (the cabinet in general and the prime minister in particular). The fiscal entrepreneurs who make up this monopoly naturally internalize the decision externalities and moderate the tendency to overfish the pockets of taxpayers.

Concern over this approach — and the feeling that we may have gone too far — is at the root of much of the current angst regarding the state of democracy in Canada. For example, in 2002 several CanWest newspapers ran a series of articles on the state of democracy in Canada, focusing on proposed reforms related to direct democracy and referendums, the electoral rule (particularly proportional representation), the concentration of power within the PMO, the role of backbench parliamentarians and committees, as well as free votes.

The reason for promoting all of these reforms is a desire to strengthen our democracy, a noble objective indeed. However, reforms to our political institutions that would weaken the policy-making monopoly of the executive without recognizing the need to

2 The over-reliance on deficit finance arises from the failure to fully account for the costs borne by future taxpayers because they don't get a vote.

internalize decision externalities in some other way could produce dire consequences.

Legislative Committees

To focus the discussion, let us consider the role of legislative committees — a particularly topical issue.³ Under the monopoly approach of parliamentary systems, most policy originates at the executive level, with parliament acting primarily as a monitoring, evaluation, and review mechanism for government initiatives. An important institutional mechanism through which parliament plays this role is the parliamentary committee. Analysts offer two competing views of legislative committees: one is that they are primarily distributive, the other is that they are largely informative.⁴ The distributive model of committees describes the congressional system in the U.S. The view is that committees facilitate the making of deals among legislators to distribute spending across various policy areas. Proponents of the informative model, on the other hand, view committees primarily as providers of information to the government. The idea is that although the consequences of policy decisions cannot be known with certainty, at the outset, committee members can obtain a better idea of those consequences if they invest effort in policy analysis and information acquisition. This specialized knowledge can feed into the policy process in several ways. One is to inform the government about the implications of its policies; another is to increase the transparency of the policy process, both for other members of the legislature and for the public at large, enhancing the former's role as watchdog on the government.

3. In a rare free vote in November 2002, Parliament voted to hold secret ballots to elect parliamentary committee chairs. Some observers view this decision as a (minor) triumph of democracy, reducing the prime minister's grip on the choice of committee.

4. For an example of a model emphasizing the distributive role of committees see Shepsle and Weingast (1994), for an example of the informative role see Gilligan and Krehbiel (1989). Much of the following draws heavily from Hallerberg (2000).

U.S. congressional committees are overtly distributive, having a good deal of budgetary power independent of the executive (the President and his cabinet). In the context of the current discussion, this arrangement suggests a highly decentralized, very democratic budgetary process. Yet presidential regimes are typically associated with lower spending and smaller governments than parliamentary regimes (see Persson and Tabellini 2000 and Scartascini and Crain 2000). Thus, we encounter an apparent contradiction of the idea that a decentralized budgetary process leads to inflated spending.

Resolving this seeming paradox requires us to consider two concepts. The first is the notion of *legislative cohesion*, the discipline of the governing party's members within the legislature. Legislative cohesion is high when members vote in a disciplined manner. If the governing party requires the confidence of the legislature to remain in power and maintain agenda control at the executive level, parties tend to vote in a disciplined manner and the degree of legislative cohesion is high. This situation is typical of most parliamentary regimes, including Canada's. If the confidence of the legislature is not required for the governing party to maintain control of the executive, then voting tends to be less disciplined and legislative cohesion is lower. This situation is typical of the U.S. system in which the president is elected separately from the legislature.

The second relevant concept is that of *separation of powers*, which refers to spreading among different legislative bodies the ability to propose various aspects of government policy. The U.S. separates powers between the executive (the President) and the legislature (Congress), and then again among various congressional committees. (A separation of powers can also exist between the executive and legislative branches in parliamentary regimes; however, that separation is typically less stark and formal than in presidential systems.).

To oversimplify, presidential regimes are characterized by a high degree of separation of powers and a low degree of legislative cohesion. Parliamentary regimes, by contrast, invest a great deal of power with the executive and much less with the legislature, have

little formal separation of powers and have a high degree of legislative cohesion.

Separation of powers and legislative cohesion can play an important role in the determination of fiscal policy. The explicit separation of powers and the distributive nature of U.S. congressional committees gives various committees agenda-setting power over different aspects of fiscal policy. The legislators who sit on these committees often have opposing interests that reflect the conflicting interests of their constituents. Each committee member wants more spending for his constituents, to be financed by taxes paid by the constituents of legislators who sit on other committees. In the absence of contravening factors, the common property problem could generate overspending.

Yet contravening factors do exist in the U.S. through a system of checks and balances that prevents distributive committees from overspending the common budgetary resource. These checks and balances take several forms, including the requirement that the plenary of both houses of Congress agree, via voting, to committee proposals at various stages of the budgetary process; the culmination is the veto power of the President. Without these checks and balances, the separation of powers would allow opposing interests to exert independent and unchecked influence over the common budgetary resource, leading to overspending.

Decentralized distributive committees cannot generate the same result in parliamentary regimes without the implementation of a stronger system of checks and balances. The nature of competition for committee chairs and memberships differs between distributive committees and informative committees. In the case of distributive committees, legislators with the most to gain from being on a particular committee lobby for membership, including the coveted job as chair. The result is that distributive committees are more likely to be composed of high demanders for government spending, implying a greater proclivity to spend than the fiscal entrepreneurs in the cabinet. As a result, decentralized parliamentary systems in which the distributive characteristic of committees is strong are likely to be high spenders as they exploit the common budgetary resource.

Some Answers

Now we can return to the questions with which this section began. Could Canada's institutional arrangements be worse? Absolutely! Any reform that enhanced the distributive characteristic of the nation's parliamentary committees without imposing countervailing checks and balances would give us the worst of two worlds, leading to a state of affairs that was much worse than the status quo. Rather, the approach under Canada's parliamentary system is to invest the executive with a great deal of control by granting it effective monopoly control over policy, backed by a high degree of legislative cohesion. This arrangement limits the distributive role of committees and internalizes decision externalities.

Should we be happy with what we've got? Not entirely. But, in my view, Canada's political institutions need fine tuning more than a complete overhaul. This conclusion is at odds with the view of the many commentators who argue for drastic reforms. Some of their opinions are doubtless motivated by dissatisfaction with current policy outcomes, and the frustration that inevitably goes with it. Ironically, in light of some of the evidence presented here, many of the suggested reforms are likely to lead to policy outcomes precisely the opposite of what these commentators hope for. And some of the current calls for reform in Canada seem motivated by a desire for reform for reform's sake, with little consideration of the ultimate impact on policy results — what the CBC's Red Green might refer to as an "if it ain't broke, you're not trying hard enough" approach to institutional reform.

I do not suggest that we should be complacent or satisfied with what we've got. None of the above suggests that *complete* control over the policymaking process need be vested with the PMO. Indeed, complete control would likely to do nothing more than generate policies that reflected the preferences of the king and his courtiers, which might or might not be optimal from a social point of view. Institutional reforms that reduced the strategic control of the prime minister and the cabinet over the budget process might lead to greater spending; reforms that maintained this strategic control, but allowed line ministers greater participation in informing policy would not.

Similarly, reforms that increased the informative nature of parliamentary committees, giving them the ability to develop specialized knowledge in particular areas, should not exacerbate the decision externality problem so long as limits were imposed on their ability to formulate, initiate, and amend budgetary policy — that is, to constrain their distributive inclinations. To the extent that these reforms engage MPs more in the policy process and generate a more inclusive, cooperative environment in Ottawa, the informational role of parliamentary committees would be enhanced, leading to better informed — and better — policy.

Having said this, I underline the necessity of imposing limits on parliamentary committees in order to force them to internalize decision externalities. Hettich and Winer caution that “to the extent that they actually influence legislation, the ‘you scratch my back and I’ll scratch yours’ atmosphere in [distributive] committees will tend to produce over expansion of government budgets.” (1993, 19) In order to avoid this situation, the institutional regime must be such that there is “government in parliament, not by parliament.” (idem 1995, 25, quoting Franks 1987, 260)

Conclusions

I emphasize again that I am not saying that reforms designed to engage the electorate, to make policy more participatory, or to generally enhance the nature of our democracy are a bad thing. My objective is to point out that institutional reforms matter, both in themselves and in their ultimate effect on policy. Moreover, the existing body of research suggests that institutions tend to affect policy and economic outcomes in systematic and predictable ways. Just as there are trade-offs in economic policy reforms, so too are there tradeoffs in institutional reforms.

Recognizing the nature of these tradeoffs should give rise to better policy recommendations and to better institutions. While some may consider this insight flaccid, those of us who are constrained by the facts have an obligation to point it out. Giving the last word to Red Green: “Remember, we’re all in this together. Keep your stick on the ice.”

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Addendum

Comment on
Ken McKenzie

Tim Besley

Ken McKenzie has produced a thought-provoking paper on important issues and I agree with much of what he says. I use this opportunity to put my own slant on the issues and to emphasize a few points that supplement his ideas.

The late 20th century saw the triumph of markets and democracies. The latter come in a variety of forms, and there is no agreed-on formula for the best democratic system. I am here today as someone who knows very little about Canadian politics. If I have a contribution, it is in bringing attention to some of the insights of the new political literature that now thrives and attempts to link incentives in political systems with policy results in theory and practice.

Democracy has apparently triumphed, so it is ironic that the older democracies around the world now talk of crises in democratic systems, epitomized by declining trust in politicians and lower levels of voter turnout. The reconciliation of these two apparently contradictory findings lies in the fact that trust in democracy as an institution has not declined.

When economists began to look at democratic systems, they were quick to use standard economic approaches borrowed from markets. A key import is the assumption of self-interest. Thus, James Buchanan, a founding father of the public-choice approach, demands that "individuals must be modeled as seeking to further

their own narrow self-interest, narrowly defined, in terms of measured net wealth position, as predicted or expected." He then emphasizes the need for constitutional restraints as a means of improving a polity populated by self-interested actors. Thus, he suggests, "To improve politics, it is necessary to improve or reform the rules within which the game of politics is played. There is no suggestion that improvement lies in the selection of morally superior agents who will use their powers in some "public interest." The decline in trust and participation seen in the established democracies could reflect a feeling that self-interest dominates in politics and that citizens have little hope of using the electoral system to make things better.

This characterization of the political process (and the public sector more generally) contrasts, however, with a tradition that emphasizes the possibility of public spiritedness and its role in the improvement of societies. Perhaps the most famous example of this outlook is Richard Titmus's work on blood donation. He argues that in many ways, systems of voluntary blood donation were likely to work better than those based on introducing private rewards as incentives. These arguments appear widely in many discussions of social life.

The new political-economy literature is less doctrinaire in its assumptions about human motivation than Buchanan's public-choice school. If there is another way of regarding behaviour, then a key function of the political system lies in putting it to work. An important corollary of this statement is the importance it places on selection as well as incentives in a well-functioning political system. To illustrate, think of academia. Creating able, creative, and dedicated researchers is difficult indeed, and although rewards may be structured to improve the situation, the key consideration is deciding who is to be appointed to an academic post. Thereafter, those of us in the system understand only too well how hard it may be to get academics to respond to monetary incentives. In other forms of employment, incentive programs may be of the essence in making things work better. But my hunch is that a large variety of public-sector occupations lie closer to my view of academia than to the production of standard private goods. The real need is for a larger focus on selection issues when designing institutions and having the right people serve in the political system.

This theory tells us little directly about how to reform institutions. But it does perhaps suggest a less brutal focus on the incentives implicit in some institutional arrangements that are viewed only from a self-interest perspective. The contracts that politicians and corporate leaders face are so incomplete that it is hard to believe that there can be good and just policies unless they are vested in the hands of those who take their trusteeship seriously.

The demand for democracy remains high when it promises an open elite wherein the best talent can be selected to make decisions for society. There is no persuasive alternative system of government that can serve this function. However, the formal institutions of democracy are no guarantee of success. A key institution that has figured in my own research is the importance of the media in scrutinizing public policy and politicians. Without free and independent media, how can a democracy be effective in promoting good policy? Yet, somewhat ironically, that decline in trust that we have seen may be due to our ability to see much more clearly how politics really works. This greater transparency may knock the gloss off democratic institutions and their achievements. It may also increase the salience of issues in a way that gives voters a biased view of some policy issues.

We now clearly understand important differences across constitutional arrangements. Thanks to the work of Persson and Tabellini, we have a strong empirical grasp of the differences between parliamentary and presidential systems and majoritarian versus proportional systems. However, making any of these big constitutional choices produces gainers and losers. We are not looking at options that make everyone better or worse off. Thus, constitutional choice, even that which is well-informed by the data, is bound to become subject to special interest pleading.

Most of the work on comparative constitutional engineering pays little attention to the role of political institutions in selecting the right individuals for public office. Thus, even though we now have a stronger knowledge base for assessing institutional change than we have ever had before, we do not know much about occupational choice for politics and public service. This area is an important one for further consideration. It seems essential to understand how public institutions encourage high-quality policy results.

Comment

Donald S. Macdonald

Clearly I have been included on this agenda as a representative of the bad old system of government that a number of people in this room have set themselves out to improve. To respond to Professor McKenzie and anticipate some other comments that may be made, I do not think that our present system of cabinet government responsible to the House of Commons is working badly at all, or needs the kind of radical change that is suggested in some quarters. I appear today in the role of what the British would describe as an "old lag," one who has served several terms and repents nothing. I have two points to make.

- 1) From time to time, the performance of the present Parliament is not admirable, but that is principally because of the nature of the current Opposition, and
- 2) As a former House Leader, I would endorse a number of the points that Paul Martin has made on the subject of parliamentary reform.

On the first point, I go back to what was one of the leading texts on parliamentary government in my youth: *Cabinet Government*, by Sir Ivor Jennings. In opening his chapter on government and parliament, Sir Ivor states:

"The most important part of Parliament is the Opposition in the House of Commons. The function of Parliament is not to govern, but to criticize. Its criticism, too, is directed not so much towards a fundamental modification of the government's policy as

towards the education of public opinion. The government's majority exists to support the government. The function of the Opposition is to secure a majority against the government at the next general election and thus to replace the government" (P. 36).

When I was House Leader, I would have been delighted to have operated under the three-line whip system that Paul Martin is introducing. There are a number of public questions on which the opinion of the electors, of the members of Parliament, and even of the members of cabinet is sharply divided. (In my time, the question of capital punishment was one such issue.) It is appropriate in these cases to enable the House to debate and divide on the question without the life of the government hanging on the result.

Equally, there are some questions at the lower end of the interest scale — for example, those of a substantially local or private nature — upon which the government need not stake its life. Such questions, some very large in principle and others very small in import, could be left to the action of a general vote of members without the whip. The only resource at stake there would be the time of Parliament.

However, relatively few proposals before Parliament do not involve some question of public expenditure. Control of the public purse has always been the responsibility of the government based upon majority support in the House of Commons. Effective control of either taxing or spending has to be in the hands of the executive. Were it not, financial management would be chaotic. That reality limits the number of measures on which the government can allow free votes.

In his remarks, Professor McKenzie referred to some alternative modes of government, for example, proportional representation, with which I do not agree. But I do not understand him to be necessarily advocating any of them. I would advocate none of them. Going to his basic question: Can the structure of political institutions determine the kind of decisions that will be made? Absolutely. Many examples could be given; the most notorious, I think, is the performance of the U.S. Senate, which is so structured that a minority group of senators from the South was able for a century to thwart any action according equal rights to the black population

of the United States. When I hear people speak in flattering terms of the American system, I always think of that example as proof why they are wrong.

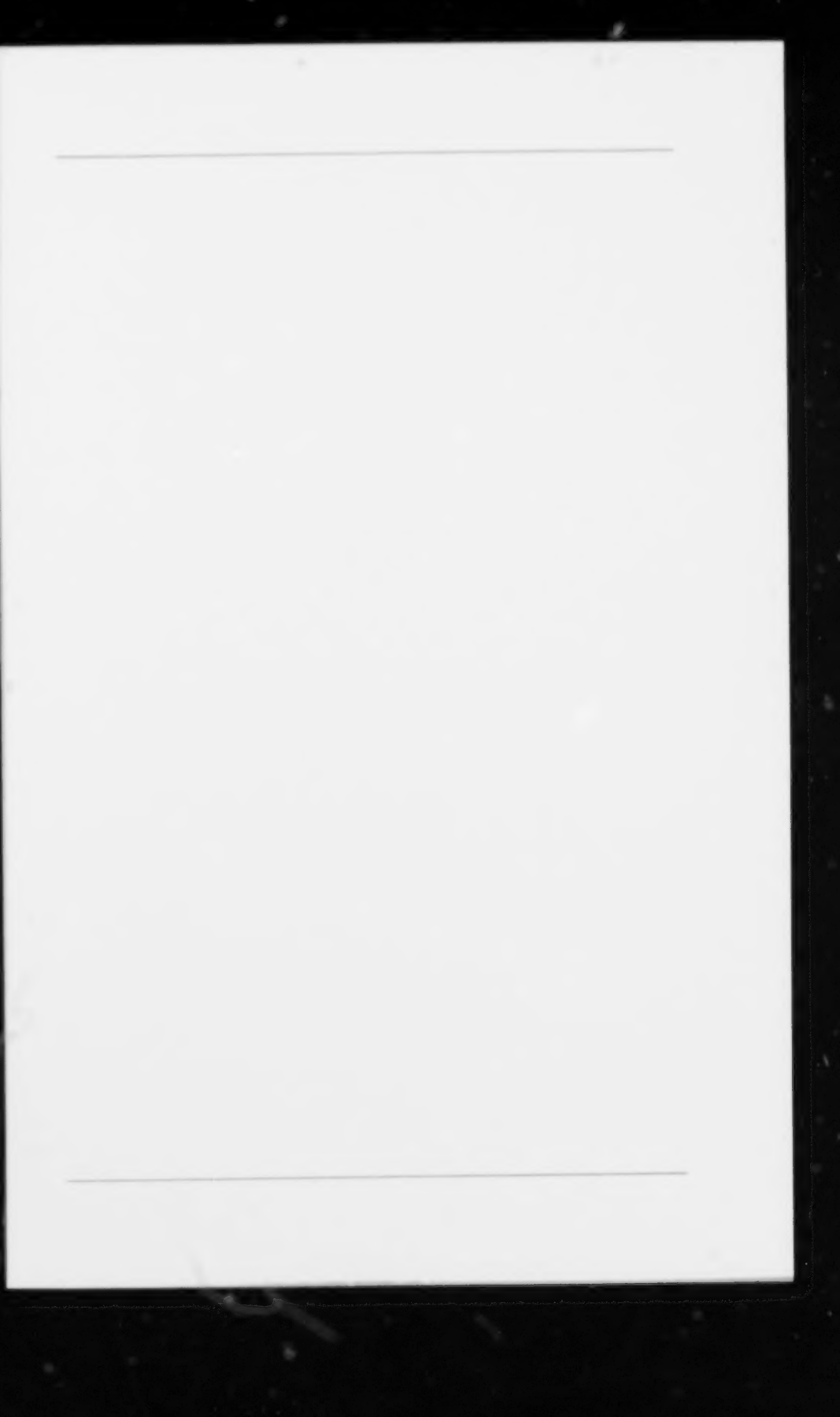
The structure of the system can affect the course of public policy, but there are plenty of examples showing that public opinion itself can have an even more decisive effect. The issue most before my mind at the moment is the recent decision of the [then Conservative Ontario government] to reverse the policy of opening the Ontario electricity market to private-sector competition. No one, I think, doubts that the impact of public opinion caused such a dramatic reversal of public policy.

While I think that public opinion is mistaken on this one — that in the long run and not too far on in time, the Ontario market would be better off if private-sector disciplines were introduced — the decision has been taken. The failure was caused by the Mike Harris ministry, in having adopted a policy and then neglecting to engage in the political task of explaining what wrong the policy was intended to right and why the course of action proposed was the best one to do that.

One of my mentors, Jack Pickersgill, used to say to me that one thing that ministers really detest is getting out on the stump to explain to the community what it is they want to do. He would have phrased it: "Only by the time you personally have become thoroughly sick to death of the speech that you were repeating does the public begin to understand what it is you are trying to do." That is not a criticism of the public, but recognition of the fact that most changes in public policy are difficult to understand and are only imperfectly communicated through the media. It is incumbent on the ministry and, in particular, the minister responsible for the change, to explain, to persuade and to encourage those for whom the measure is being proposed — the electorate. The parliamentary process is never going to be tidy or capable of gratifying every public wish.

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Gilded Cages and Trojan Horses: Taxes, Transfers, and Quality of Governance

John Richards

Transparency International is a prominent, international organization devoted to combating government corruption. It publishes annually a Corruption Perceptions Index that ranks, from most to least honest, the public sectors of more than 100 countries.¹ In its assessments for the three years 2000-to-2002, the Bangladesh public sector emerged as the world's most corrupt.

In a lecture delivered several years earlier, a retired Bangladeshi civil servant speculated on reasons for his country's dismal record in this respect:

Local governments are usually more responsive to what villagers want from government than are officials and politicians in the national capital. But we should not expect perfection from any order of government. Two-thirds, let us say, of local government revenues are applied with a modicum of efficiency to the tasks at hand, and one-third are misdirected. Not ideal, but tolerable. The problem in our country is that, too often, the ratio is the other way round. Part of the problem is that villagers lack means to hold politicians and officials to account. Village councils do not hire and fire local teachers or health workers. Nor can villagers refuse to pay taxes in the case of poor service; nearly all taxes — and donor aid — flow first through Dhaka, and are subsequently transferred to subordinate governments.

I thank Richard Bird, Bill Robson, and Henry Milner for critiques of an earlier draft. I profited also from Michael Trebilcock's skeptical observations. Lee d'Anjou undertook a thorough exercise in copy editing.

- 1 Information about Transparency International and its Corruption Perceptions Index is available at www.transparency.org.
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A recent article by Easterly and Levine (2002) follows the same thread. The authors attempt to explain the differences in per capita incomes in 72 countries around the world. Why, they ask, is Canada 107 times richer than Burundi? They pose three potential explanations: (a) the distance from the equator (because temperate climates generate fewer debilitating health impediments to high labour productivity); (b) the quality of political institutions (measured by a country's standing on the six-dimensional index used extensively by the World Bank in recent years), and (c) the quality of current macroeconomic policies (good policies, including openness to trade, low inflation, and the absence of official exchange-rate overvaluation).

The key variable, they conclude, is the quality of political institutions or — to use a roughly equivalent term — the quality of governance. After allowing for the effect of institutional quality, the analysts find that current policies do not much matter.²

Relative to other countries, Canada has good political institutions, which is presumably why Easterly and Levine use it as counterpoint to Burundi. The cumulative difference in institutional quality between Canada and a country such as Burundi arises from a large number of small differences in the quality of public decisions made throughout the public sector — in Ottawa, the provinces and municipalities; in the judicial, executive and legislative branches.

Why are the small differences consistently to Canada's advantage? Consider two facts. First, in general, Canada enjoys tax-transfer regimes that do not unduly tempt the decision makers of subnational institutions (provinces, municipalities, and so on) or those subject to their decisions to pursue inefficient decisions. And second, where problems of institutional quality do appear in Canada, the key explanation is often large and poorly designed transfers from a senior government. The latter point is the one I consider here.

2 Distance from the equator also matters, but Easterly and Levine (2002) find primarily because it influenced the willingness of Europeans, who brought with them the institutions of liberal democracy and private property, to settle and take up permanent residence.

The paper proceeds as follows. First I offer a brief survey of emerging literature bearing on governance. I then discuss Canadian cases to explore informally the relevance of three related propositions.³

Economic Development and the Quality of Governance

Easterly and Levine (2002) measure the quality of institutions by means of an index constructed by Kaufman, Kraay, and Zoido-Lobaton (1999a; 1999b), in work conducted for the World Bank. Based on more than 300 indicators, this index identifies six underlying components of institutional quality:

- Voice and accountability — the extent to which citizens can choose their government, political rights, civil liberties, and an independent press;
- Political stability and absence of violence — a low likelihood that the government will be overthrown by unconstitutional or violent means;
- Government effectiveness — quality of public service delivery, competence of civil servants, and the degree of politicization of the civil service;
- Light regulatory burden — relative absence of government controls on goods markets, government interference in the banking system, excessive bureaucratic controls on starting new businesses, or excessive regulation of private business and international trade;
- Rule of law — protection of persons and property against violence or theft, independent and effective judges, contract enforcement;
- Freedom from graft — absence of the use of public power for private gain (Easterly and Levine 2002, 17).

A second influential study bearing on governance and economic development is the World Bank's *Assessing Aid* (1998). It

3 One inspiration for my concern in this essay with the design of intergovernmental transfers and insistence on own-source taxation is the work of Richard Bird, the volume's editor.

cites an analysis of the impact of donor aid on 56 developing countries' annual growth in per capita gross domestic product (GDP) from the early 1970s to early 1990s. The analysts constructed what they label an "index of economic management" across countries. Its elements include measures of institutional quality, and openness to trade, inflation, and budget balances. Their reasoning for including the ability to balance budgets is twofold. One component is the argument that protracted budget deficits generate economic uncertainty; they increase the probability of inflation, hamper investment, and restrain growth. The ability to balance budgets is also a proxy for a working political system, one that is able to affect acceptable compromises between interest groups that advocate more government spending and those that want lower taxation.

The key conclusion of *Assessing Aid* concerns the interaction of aid and this economic management. Among those countries where the index is high, aid had a positive effect on growth over the years analyzed. A 1-percent increase in the ratio of aid to per capita GDP increased annual per capita GDP growth by an estimated 0.5 percent. However, among those countries where it was low, a 1-percent increase in the same ratio reduced that growth by an estimated 0.3 percent.

In this essay, I am concerned with what might be described as domestic aid: Ottawa as the donor and the provinces and other subnational agencies as aid recipients. Ottawa's intergovernmental transfers may, to quote the rationale of the Canadian Constitution for equalization, "ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation" (section 36.2). But, by extrapolation from international experience, we should not be surprised to find that, when poorly designed, Ottawa's transfers do harm as well as good.

A few caveats. First, we must admit the idea of good versus bad governance is nebulous. International comparisons rely heavily on opinion surveys of people in a position to compare, or they use a few proxies, such as the public sector's ability to balance budgets. Yet imprecise ideas are not necessarily bad ideas. Better to grapple with complex realities than to pursue what turns out to be an alchemist's agenda.

Second, the current concern with governance may be a new idea among development analysts, many of whom will, in due course, pass on to some even newer idea. But it is not really a new idea at all. Rather it is the rediscovery of the tradition of political realism as espoused by writers as diverse as Machiavelli, Edmund Burke, and James Madison. What these pragmatic political writers share is the conviction that good governance is an imprecise art aimed at reconciling competing social interests — of religion, ethnicity, region, or class. Without that reconciliation, no one can erect civic institutions, such as the rule of law, or provide basic social services, such as education. The rule of law and the provision of basic education are, in turn, preconditions for the flourishing of what Adam Smith describes as the natural human propensity to "truck and trade." Without some measure of interest-group reconciliation to enable erection of civic institutions, markets must operate at the simple level of oral contract among people who trust one another due to kinship or other local bonds. In sum, realizing the material prosperity of an industrial economy requires a government that works.⁴

Canadian Case Studies

By the World Bank and other indexes, the quality of Canadian governance ranks high. Among countries ranked in the Transparency International 2002 Corruption Perceptions Index, Canada tied for 11th out of a total of 133 — with Bangladesh at the bottom. If we examine Canadian political institutions at a finer resolution, however, there emerge important cases in which performance is poor, and the admonitions of this development literature have relevance.

The following discussion is organized around three informal propositions about the characteristics of well-designed political institutions and what happens in their absence.

4 *Government That Works* is incidentally the title of a World Bank study of the public sector in Bangladesh (1996). Rectifying the very serious inadequacies of the Bangladesh public sector is, the report concludes, necessary for sustained economic development.

Proposition One: Internalizing Costs and Benefits of Programs

A political institution with spending responsibilities will be, other things equal, of higher quality if designed with close attention to internalizing program costs among those who are potential beneficiaries of those programs.

Countries deliver many services to citizens via traditional line departments, which report through senior officials to a cabinet minister and a national legislature, which votes the necessary funds. There are disadvantages to this command-and-control organization, however, and all countries with some combination of more-than-minimal population (say, more than five million), reasonable size (larger than that of city states), and cultural diversity (different regions dominated by different cultural majorities) resort to regional and local governments with leaders who are usually, though not always (consider French *préfets*), elected by the relevant subpopulations.

That those who spend should be required to discuss the matter with those who pay and that the latter should have assented to imposed levies prior to the spending emerged as a means to achieve good governance in north European protoparliaments around 1000 A.D. In the case of England, the year 1215 has symbolic importance. English nobles obliged King John to accept the principle that he could not tax them to wage war against his many enemies without their assent. King John was in political difficulty when he attached his seal to the Magna Carta. He had no intent of being bound by it, but, shortly thereafter, during yet another military campaign, he drank too much beer, ate too many peaches, and died. The Oxford Illustrated History of the British Monarchy summarizes:

Magna Carta had a life of its own after 1215. It came to be regarded as a safeguard of the rights of the subject in relation to the crown's power, and its repeated confirmations and reissues in the 13th century gave it a status, in Englishmen's eyes, as inalienable custom and fundamental law. (Cannon and Griffiths 1998, 125-27.)

As authoritarian monarchy evolved into parliamentary democracy, the Magna Carta came to mean that governments should not spend without the assent of the people's elected representatives.

The logic of the Magna Carta is worth unpacking. A constant of collective life is the potential to abuse political power and use it for ends to which the majority would not assent if consulted. The prospect of an immediate impact via taxes to be paid increases the probability that taxpayers — whether medieval noblemen or citizens of a modern democracy — will overcome rational ignorance and monitor what their leaders are doing. The term rational ignorance implies that each citizen conducts an informal cost-benefit calculation on whether to become informed about any political matter. Becoming informed entails costs. The expected benefit is the difference in value of the preferred outcome relative to nonpreferred outcomes, multiplied by the probability of the individual's participation affecting the outcome. Applying this logic leads the median voter to the conclusion that ignorance is usually rational (see Olson 1982, chap.1). The result of all this is that own-source taxation can be expected to provide a beneficial impact on the quality of governance. When local or regional government revenues take the form of a transfer from a senior government, this benefit is lost. A benign local leadership may, of course, implement the level and kind of services that the majority of citizens would have chosen were they required to vote the requisite taxes, but an important constraint on political abuse — to use more neutral language, on poor governance — is absent.

These observations on the beneficial effect of own-source taxation may seem banal, but strategic thinking in many branches of government ignores them. This tendency is particularly acute in Ottawa. To summarize crudely, provinces and municipalities employ large numbers of civil servants, teachers, social workers, nurses, and others who provide labour-intensive services; transfers to lower-order governments are small fractions of provincial budgets. Conversely, Ottawa spends proportionately little on public employees who deliver services directly; it spends a great deal on cheques to individual Canadians and to other orders of government. Inevitably, strategic thinking in Ottawa turns to ways whereby federal transfers can be used to influence those who do the delivery.

That federal transfers may lower regional/local quality of governance is a discomfoting line of thought, not enthusiastically pursued. Needless to add, many senior officials in provincial capitals also ignore the implications of their proportionately smaller transfer programs.

To illustrate the absence of appreciation for own-source taxation, I note two recent federal reports: the most recent white paper from the Canadian International Development Agency (CIDA) and the final report of the Romanow Commission on the Future of Health Care in Canada.

CIDA's *Canada making a difference in the world* (Canada 2002a) provides us with a link to the development literature discussed earlier. The essence of foreign aid is the transfer of income from Canada, a rich country, to a series of poor countries.

In this policy statement, CIDA acknowledges past aid failures and refers to governance problems — there is even a reference to *Assessing Aid*. The "principles" that the writers consider important are local ownership of development strategies, improved donor coordination, stronger partnerships between donor and host countries, and greater coherence between aid and non-aid donor policies, such as lowering trade barriers against Third World exports. To these, the report adds good governance, building capacity, and an engaged society. These are worthy, if vaguely described, goals. What is missing is realism about the extent of poor governance in countries receiving CIDA aid,⁵ and how the agency might improve matters. Nowhere in this report is there discussion of the role of my first proposition in improving quality of governance.

Similar omissions mar the final report of the Romanow Commission (Canada 2002c), which mounts an eloquent defence of a single-payer system of publicly financed health-care insurance. In general, publicly financed systems are both more efficient than private-sector alternatives and succeed in equalizing the distribution of health-care services, provided that the quality of health-care governance is good. Nowhere does the report discuss the possibility that the relative success of medicare in Canada may be due to

5 In most years, the country receiving the largest bilateral CIDA aid has been Bangladesh.

the fact that the provinces, the order of government responsible for most public health-care spending, undertake their budgeting more or less subject to own-source taxation. Indeed, the report proposes that the provinces receive a series of new conditional federal transfers, the effect of which would be to lower the role of financing via own-source taxation. The report does not discuss the option of Ottawa's ceding tax room that the provinces, if they perceive the need, could take up for health-care financing.

Another Romanow recommendation is to delegate critical decisions about health-care policy to a health council on which only four of 14 representatives would be direct provincial appointees.⁶ It seems unlikely such a council would ever recommend controversial budgetary decisions, such as hospital closures.

Cumulatively, acting on these proposals would weaken the link between citizens (in their capacity as provincial residents responsible for assessing the appropriate level and nature of publicly supplied health-care services) and their provincial politicians (who must decide on spending and taxing levels).

Proposition Two: Allowing For Exceptions

In the design of institutions that do not respect proposition one — either because they spend transfers from a senior government or because they have the potential to export their program costs — governments must ensure other credible mechanisms for securing accountability. Feasible alternatives include combinations of the following:

- *The administrators are highly professional and subject to active peer review.*
- *The senior government undertakes high-profile audits to measure outcomes and maintains a credible threat of withdrawing transfers or dismissing managers.*

6 Another two would be federal appointees; one would represent the territorial governments; three would represent the public, and four would represent the "expert community," (Canada 2002c, 59).

- *The potential beneficiaries can, without incurring large costs, vote with their feet and choose among alternative institutions.*

Decision makers may have good reasons for resorting to political institutions that violate the first proposition. The following are a few considerations:

- The cooperative behaviour essential to efficient government is often more prevalent in smaller arenas than in larger ones. In the former, monitoring behaviour is easier; defaulting from a cooperative strategy is more readily noted and sanctioned. Hence, decentralization of public supply may improve the quality of governance by exploiting a positive externality arising from strong, local cooperative cultures.
- Interjurisdictional competition — voting with one's feet — may serve as a substitute for internalizing costs and benefits by own-source taxation. The smaller the jurisdiction, the lower the costs of such migration and the more credible are citizen threats to exercise this option if public policies deviate dramatically from median preferences.⁷ Implicit here is that those who vote with their feet impose a fiscal sanction on the spurned institution (for example, by reducing those of its revenues that are based on a per capita transfer formula).
- The scope of managerial decisions is necessarily smaller than would be the case were a national institution responsible for the relevant decisions across the country. Smaller scope usually improves quality of management. Assembling the required information about voter preferences is lower, and hence managers can more readily make decisions that correspond to the preferences of the median voter. Informal cost-benefit calculations of policy options are simpler to undertake. Offsetting these advantages, very small institutions suffer from limited ability to hire high-salary competent professionals.
- In many domains, a high level of uncertainty reigns as to outcomes from policy alternatives. If a senior government deter-

⁷ Admittedly, median preferences may not be the most efficient from the perspective of willingness-to-pay.

mines a uniform policy, the ability to experiment is limited. Entrepreneurially active local institutions may improve the overall quality of governance by acting as policy laboratories.

QUANGOS and Local Governments

A feature of modern government is the quasi-nongovernment organization (QUANGO in British jargon) that supplies public services, under the control of stakeholder interests, on a not-for-profit basis. Canadian examples range from publicly funded hospitals and universities (organized as nonprofit societies with appointed or elected boards of directors), sub-provincial health regions (run by boards that may be appointed or, on occasion, elected by regional stakeholders), to voluntary associations, such as sports clubs financed in whole or in part by public grants. In the case of small-scale QUANGOS spending public funds, the club-like features of interpersonal interaction usually assure reasonable performance. Ongoing professional auditing can act as a supplementary guarantee. It helps if credible examples exist where the auditing dynamic can lead to cancellation of subsidy.

Another condition that may lead to successful decentralization of spending without local taxation is the domination of an institution by professional norms. In hospitals and universities, for example, the professional norms of those involved usually suffice to generate satisfactory results — in the sense that centralized decision-making would be worse. Yet, even this conclusion needs qualification. Much of the contemporary debate over health policy turns around the extent to which physicians and professional managers of health-care institutions can serve as efficient gatekeepers to spending in the system. Many analysts are skeptical, and want to introduce elements of inter-institutional competition.⁸

As prime minister, Paul Martin proposed to enhance the status of Canada's major cities: for example, via major federal special-purpose grants to them. Such grants would, to some extent, free the cities from their present tutelage to the provinces. His government

8 See, for example, Donaldson's (2001) case for internal markets, or Blomqvist's case for competition among alternate insurance plans (2002).

exempted large urban centres from paying GST on many services. The danger in such a strategy is that it will confuse accountability for municipal outcomes.

At present, municipalities receive fiscal transfers, primarily from the provinces, and remain unambiguously subject to provincial enabling legislation. When municipalities are deemed to be functioning inefficiently, the provinces have the constitutional power — and responsibility — to reorganize them. Reorganization of municipal government in some of the country's major cities over the last decade provided a credible exercise of this power.

Many of these reorganizations have been controversial — imposition of amalgamation on Toronto and Montreal in particular. The provincial reluctance to reorganize local government in metropolitan Vancouver, Canada's third major city, has also been controversial. In each case, provincial decisions to act or not to act may have been wrong, but it is clear that the provinces, not Ottawa, are ultimately accountable for the satisfactory performance of municipal governments. If Ottawa initiates major ongoing conditional grants to the cities, this transparency of accountability will be lost.

Some Failures

The value of a proposition is often best appreciated by considering failures. Here is a sample of organizational failures or significant problems among political institutions that have been endowed with major spending authority without the corresponding requirement to internalize costs.

Workers' Compensation Boards. Workers' compensation is one of the oldest of western social programs, dating back to Bismarck's Germany in the late 19th century. Mandatory disability insurance for work-related injuries has the potential to overcome a variety of market failures and improve on the alternative of tort law and voluntary insurance. Over the last quarter-century, provincial governments accepted the logic of the proposition that the joint interest of workers and employers in the success of these programs sufficed to entrust their management to boards composed of representatives chosen by union and management associations.

Although the boards have been operating on an offline accounting basis with the expectation that the premiums charged would suffice to pay pensions and rehabilitation costs, the budget constraint has, in many instances, been soft. Provinces did not establish credible mandates to match expenditures and revenues. The result in many provinces has been large unfunded liabilities (Thomason et al. 1995).

Local Airport Authorities. Ottawa has delegated the management and financing of major airports to local airport authorities (LAA), which are QUANGOS with boards that comprise representatives of local stakeholders. At first glance, one might think airport authorities should not qualify for this list because they do raise revenues from airport users. The reason they do belong is that the growth of hub-and-spoke airline routing over the last quarter-century has accentuated the natural monopoly status of hub airports. Ottawa has organized hub airports with no forum whereby agents of non-local airport users can credibly exercise a sanction. As community representatives, LAA board members have a stake in an efficiently functioning airport, but they also have an interest in exploiting its ability, via airport improvement fees, to export costs and capture economic rent from the many users who are in transit. The only feasible agent to check this behaviour is the federal government, which, having delegated managerial and financial responsibility, does not presently do so (Lovink 2001; Lazar 2003).

Regional Health-care Boards. In the early 1990s, conventional wisdom in provincial health ministries favoured delegating allocation decisions to regional boards in which representatives of regional stakeholders — physicians, health-care employee unions, local politicians — would control regionally specific health-care budget envelopes. An example of this wisdom is *Closer to Home*, the report of a British Columbia royal commission (1991). But as implemented in British Columbia, regional boards did not develop a culture of maximizing benefits subject to hard budgets, and the provincial government was obliged to impose several disruptive reorganizations.

In all provinces, during the years of fiscal restraint in the mid-1990s, regional boards could not realize major reallocative spend-

ing decisions, such as hospital closures. Such decisions were made either by line ministers and cabinet (for example, in Quebec and Saskatchewan) or by regional boards staffed with provincial appointees who had an explicit mandate to reduce costs (for example, in Ontario and Alberta).

Proposition Three: Acknowledging a Tradeoff

Considerations of revenue stability and equity prompt the use of transfers to supplement the own-source tax revenue of subnational political institutions. When these institutions display a reasonable quality of governance, such transfers can have the desired effect. Block grants are preferable. Moreover, they should have minimum conditionality. Transfers as a share of total revenues may have a tipping point. If they exceed the tipping point for more than a few years, what may ensue is a new equilibrium characterized by lower institutional quality.

The core federal-provincial transfer is equalization, something sufficiently central to the Canadian ideal of federalism to figure in the Constitution. Equalization can be justified as either intergovernmental revenue insurance that offsets the greater variability of provincial, relative to federal, revenues or, as necessary, interregional redistribution if Canada is to enjoy the improvement in the quality of service delivery made feasible when provinces, rather than Ottawa, are in charge.⁹ Both of these rationales justify, to my satisfaction, the existence of equalization as a major intergovernmental transfer.

The rationale for large-scale intergovernmental transfers other than equalization is much weaker. Consider three problems: the overwhelming, demeaning effect on Aboriginal citizens of transfer dependencies; the unintended consequences arising from large-scale conditional transfers, and the weak fiscal discipline of provinces that are highly reliant on intergovernmental transfers.

⁹ In his C.D. Howe Institute *Benefactors Lecture*, Paul Boothe (1998) gives a good survey of the various rationales for intergovernmental transfers.

From \$160 Million to \$6 Billion

To make good on the promise of Aboriginal self-government, Ottawa now transfers very large sums to enable band councils to provide services to members. In the 2004/2005 fiscal year, the Department of Indian and Northern Affairs is estimated to spend \$5.8 billion, most of it in the form of transfers to bands.¹⁰ In contrast, the 1969/1970 budget of the department was \$347 million, including \$160 million in the Indian and Eskimo Affairs Branch. (Canada 1972; 2001b). Although bands today undertake minor own-source taxation — primarily of nonmembers residing on-reserve — Indian Affairs transfers constitute nearly all of their revenues.

Band councillors can call on the communal features of Aboriginal culture as a basis for good governance, but the massive increase in transfers places too large a burden on this foundation. One indicator of this overreliance on communal checks and balances is the auditor general's frequent criticism of poor-quality on-reserve services.¹¹ Since those reports have not led to credible interventions from Indian Affairs, the problems have persisted. They had become so severe that, in 2001, the department launched a high-profile First Nations Governance Initiative. The goal of this initiative was to improve the quality of on-reserve electoral procedures and of audits. Absent was any role for own-source taxation.

Federal funding of Indian band councils is an extreme case of transfer revenues dominating the budgets of subnational jurisdictions, with dubious consequences for the quality of services. Arguing it to be an unwarranted intrusion on the Aboriginal right to self-government, band chiefs lobbied against the initiative. In

10 This estimate of 2004/2005 spending is based on personal communication with officials.

11 The auditor general provides a recent assessment of on-reserve education for kindergarten through Grade 12 (Canada 2000). The report criticizes the failure of the Department of Indian and Northern Affairs to monitor education outcomes itself or to put in place alternate mechanisms to do so.

spring 2004, Ottawa acceded, abandoning the initiative and accompanying draft legislation.¹²

From the Canada Assistance Plan to the Health Reform Fund

From the mid-1970s to mid-1990s, Ottawa maintained three major intergovernmental transfer programs: equalization, established program financing (EPF), and the Canada assistance plan (CAP). In 1995, when Ottawa combined CAP and EPF into the Canada health and social transfer (CHST), a block grant, the three transfers were of roughly equal magnitude in cash terms and cumulatively constituted a quarter of federal program spending.¹³ Initially, the CHST entailed a total annual cash reduction of about \$7 billion relative to the cash value of CAP plus EPF. With the subsequent restoration of federal budget surpluses, CHST transfers have risen. With few exceptions, Ottawa directly provided, via these and other smaller transfers, a third to a half of the revenues of the Saskatchewan, Manitoba, and Atlantic provinces' governments from 1980 to the mid-1990s. (This underestimates these provinces' reliance on federal redistribution. For example, Ottawa redesigned unemployment insurance in the early 1970s in a manner that assured permanent interregional redistribution from Ontario and the four western provinces west to the five east of them.)

The CAP was an important instance of federal transfers distorting provincial priorities and lowering the quality of provincial programming. Provided provinces adhered to the (vaguely

12 For further discussion of problems of reserve governance, see the major except from Jean Allard's manuscript (2002) and my related monograph (Richards 2003a).

13 I am ignoring the convoluted matter of the tax transfers included in federal Department of Finance calculations. By now, it is largely meaningless to measure the value of federal evacuation of tax room on behalf of the provinces, made in the 1970s during the negotiating of EPF. Except in calculating the Quebec tax abatement, tax transfers are a notional number. Neither order of government "owns" the tax room nominally transferred, and subsequently both orders of government have adjusted their respective tax rates many times.

defined) condition that welfare access be based on no criteria other than financial need, Ottawa paid 50 cents of every provincial dollar spent on such programming. Almost certainly, this CAP design encouraged provinces not to assess alternate antipoverty policies and instead to rely on passive income support. The proportion of Canadians in receipt of welfare rose from 5 percent in the early 1970s to more than 10 percent in the mid-1990s (Canada 2001a). By the late 1980s, the most generous province was Ontario, which had the fiscal capacity to make maximum use of 50-cent dollars.

In 1990, Ottawa attempted to contain the growth of CAP transfers, particularly to Ontario, by imposing a cap on CAP — a ceiling on the growth rate of CAP transfers for the three provinces not then receiving equalization (Ontario, Alberta, and British Columbia). By 1995/1996, the final year of CAP transfers, their per capita distribution across provinces was indefensible, and the program had become a major federal-provincial irritant. The ratio between per capita CAP transfers to Quebec (which was not constrained by the cap and received the most) and Alberta (which had cost-shareable welfare spending far below the cap and received the least) was 2:1 (Courchene 1995, 21). The capped provinces complained bitterly about the inequity. Ottawa countered that it was unconscionable for wealthy “have” provinces (Ontario and British Columbia) to expect Ottawa to co-fund unreasonably generous welfare programs at a time of large federal deficits.

Spurred by generalized fiscal distress in the 1990s, many senior provincial officials finally explored alternate anti-poverty policies and concluded that permitting employable adults ease of access to welfare was bad policy. This change occurred earliest in Alberta, with introduction in 1993 of what came to be called the Cardinal reforms.¹⁴ By the late-1990s, officials in most provincial social service ministries came to similar conclusions, and constrained welfare access. By 2000, the proportion of Canadians in receipt of welfare had fallen back to 7 percent, the level prevailing during the early 1980s recession.

14 Mike Cardinal was, at the time, the Alberta minister of social services.

In policy areas characterized by uncertainty, such as relief of acute poverty, senior officials often display a pack phenomenon. It would be unfair to call conditional CAP transfers the sole — or even primary — variable that explains the generosity of 1980s and early 1990s access to welfare benefits in Canada. However, it is fair to conclude that in the absence of open-ended cost-sharing, provinces would have reassessed sooner.

The CAP emerged in the 1960s at a time when many in Ottawa envisioned the transformation of provincial welfare programs into a national negative income tax. Within a decade, policy support for negative income taxes had faded, but the CAP survived for three decades. Ottawa may be repeating the mistakes of CAP in its present health-care initiatives. The 2003 budget projects major spending over the rest of the decade in several new conditional federal grants to the provinces for specific health-care programs. The most ambitious is a projected \$16 billion for a new Health Reform Fund (Canada 2003). These transfers enmesh Ottawa in aspects of detailed health-care management for which it is ill-equipped.

The provinces are pleased to receive extra cash transfers. But many — Quebec and Alberta in particular — would prefer extra tax room, via a federal tax cut. In exchange the provinces have offered various mechanisms to maintain minimum shared standards. Discussion of alternative mechanisms has assumed renewed prominence since the 2003 Premiers' Conference endorsed the Quebec Liberal Party's proposal for a council of the federation.¹⁵

Transfer Tipping Points

Many studies of urban poverty use the idea of a tipping point. As the poverty rate rises in any neighbourhood, so too does the ratio of transfer income to earnings. When the poverty rate exceeds

15 On mechanisms to achieve shared standards for provincial programs, see the exchange between Claude Ryan and André Burelle (2000) over the Social Union Framework Agreement and my recent application of Burelle's ideas to the Romanow report (Richards 2003b). The Quebec Liberals' proposal for a council of the federation is set out in one of the party's constitutional reports (Pelletier 2001).

some critical level, the neighbourhood may tip into a ghetto, and, for a variety of reasons, residents may lose the capacity to respond positively to normal economic incentives.¹⁶ The same fate may befall governments.

Jean-François Lisée, a senior adviser to Parti Québécois governments in the 1990s, alludes to this idea in his book, *Sortie de secours* (2000, 392–93). In it, he renounces the pursuit of sovereignty, but remains concerned about the prerequisites if Quebec is to function as a high-quality political institution within Canada. One condition is that Quebecers continue to debate priorities on social policy within the context of provincial politics. For that to occur, he argues, Quebecers must continue to fund the great majority of provincial programming via own-source taxation and a majority of tax revenue collected in the province must accrue to Québec City, not Ottawa.

In a fiscally decentralized federation like Canada, all provincial governments must undertake the political calculus of weighing incremental benefits from higher spending against incremental costs from higher own-source taxation. Over the two decades 1975 through 1995, the quality of Canadian governance was marred by politicians' debilitating inability to do this, either in Ottawa or at the provincial level. At the nadir of the early 1990s recession, both orders of government were generating large deficits. Canada's public sector deficit was larger than that of nearly all other OECD countries; so too was its net public debt. Senior officials in the Finance Department and in the banks contemplated their options if the most seriously indebted provinces forfeited their liabilities and if there was a selloff of the Canadian dollar analogous to that of the Mexican peso in 1994. Both orders of government helped dig Canada into its fiscal hole. And both orders helped dig Canada out. Their aggregate fiscal position, measured in terms of own initiatives (see Table 1 for a definition of the term), improved between the depths of the recession, 1991/1992, and the first balanced provincial budgets, realized in Saskatchewan and Alberta in 1994/1995, by more than \$10 billion. Over this three-year interval,

16 I survey some of this literature in Richards (2001).

Table 1: *Distribution of Budget Balances and Own Initiatives*

	Budget Balances 1991/92	Own Initiatives	
		1991/92 to 1994/95	1991/92 to 1998/99
		(\$ billions)	
Federal government	-34.4	-2.2	37.5
Provincial governments	-22.6	10.4	29.5
Newfoundland	-0.3	0.0	0.0
Prince Edward Island	-0.1	0.0	0.0
Nova Scotia	-0.4	0.1	0.0
New Brunswick	-0.4	0.3	0.3
Quebec	-4.3	-1.1	5.7
Ontario	-10.9	3.2	14.5
Manitoba	-0.3	0.2	0.7
Saskatchewan	-0.8	1.3	1.4
Alberta	-3.8	4.2	4.7
British Columbia	-2.5	2.2	2.4

Note: "Own initiatives" are the sum of a government's increase in annual own-source revenues from beginning to end date plus its program spending decrease (or minus its program spending increase) over the same period. Own initiatives differ from changes in the public account balances due to absence of changes in debt service costs.

Source: Author's calculations from data in Canada (1999).

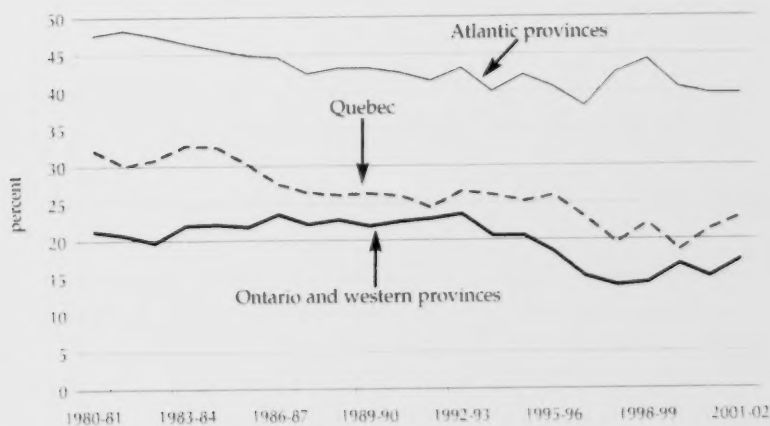
Ottawa made no contribution; its own initiatives were negative (-\$2 billion). Over the seven-year period 1991/1992-to-1998/1999, federal and provincial initiatives were of similar magnitude (\$38 billion and \$30 billion respectively.).

In aggregate, the provinces played nearly as important a role as did Ottawa in restoring fiscal balance over the last decade but, as the "own initiatives" column of Table 1 indicates, the roles of particular provinces differed dramatically. The Atlantic Canadian provinces did little; nor in the first period, 1991/1992-to-1994/1995, did Quebec. The most obvious measure of quality of fiscal performance is taxpayer-supported provincial debt (Table 2). Normalized by provincial GDP, it ranged in 1992 from 55 percent in Saskatchewan to 15 percent in British Columbia. A decade later, in 2002, the range was from 47 percent in Newfoundland to

Table 2: *Selected Fiscal and Economic Statistics, by Province*

	Provincial net debt/GDP, 2002	Transfer/revenue average, 1980/1981-to-2001/2002 (percent)	Per capita GDP, 2001 (\$ thousands)
Newfoundland	46.5	47.7	25.9
Prince Edward Island	29.7	43.5	24.9
Nova Scotia	45.2	40.7	26.7
New Brunswick	30.8	40.2	27.1
Quebec	41.0	26.1	30.8
Ontario	26.3	15.0	36.8
Manitoba	26.7	34.8	30.2
Saskatchewan	24.6	22.2	32.9
Alberta	-1.2	12.1	48.6
British Columbia	25.3	15.0	31.6

Note: Author's calculations from data in Canada (2002b) and Dominion Bond Rating Service (reproduced in Saskatchewan 2003).

Figure 1: *Federal Transfers as a Share of Provincial Revenues, fiscal years 1980/1981-to-2001/2002*

Source: Author's calculations from data in Canada 2002b.

Table 3: *Explaining Provincial Fiscal Performance*

	Regression 1	Regression 2	Regression 3	Regression 4
Intercept	32.90	25.80	28.78	25.73
Province is Alberta (1: Alberta; 0: elsewhere)	-34.10***	-27.00**	-29.98***	-26.93***
Province is among tradi- tional "have nots" (1: Atlantic provinces, Quebec, Manitoba, Saskatchewan; 0: else- where)		9.13*		
Transfers exceed 40 per- cent (1: Atlantic provinces; 0: elsewhere)			9.27**	
Ottawa undertakes more discretionary transfers (1: Atlantic Canada, Quebec; 0: elsewhere)				12.92***
Adjusted R-square	0.58	0.62	0.67	0.80

Notes: Dependant variable is 2002 provincial net debt as percentage of provincial GDP.
Level of significance is indicated by the following legend (one-tail t-test):

- * 0.15 significance
- ** 0.075 significance
- *** 0.01 significance

-1 percent (that is, no net debt) in Alberta (Moody's Investors Service, quoted in Richards 2000, 31; Dominion Bond Rating Service, quoted in Saskatchewan 2003, 51).

Figure 1 displays trends in federal transfers as a share of provincial revenues, over the fiscal years 1980/1981-to-2001/2002, among three subsets of provinces.¹⁷ Table 2 sets out the average ratio of transfers to total revenues over this period — and per capita GDP in 2001.

Alberta is exceptional among the provinces due to its very large per capita resource revenues. Not surprisingly, it is an outlier in terms of indebtedness. In any regression to explain provincial indebtedness, a dummy variable for Alberta is highly significant (see regressions 1-to-4).

If access to transfer revenue affects the quality of governance, a logical question to pose is, did the traditional "have not" provinces, those in receipt of equalization in most years, display a lower quality of fiscal performance, as measured by having a higher normalized debt than the three "have" provinces?¹⁸ The answer is yes (see regression 2). But the coefficient using all "have not" provinces is only weakly significant.

The third regression incorporates the idea of a tipping point, defined as federal transfers exceeding, on average, 40 percent of total provincial revenues over the last two decades. This was the case for four provinces, those in Atlantic Canada. As opposed to a province being among the traditional "have nots," did fiscal performance suffer among provinces over this tipping point? Yes (see regression 3). And the coefficient for provinces above the tipping point is more significant than that for the "have nots" in the second.

Proportionately large transfers mean that provincial budgeting is affected by discretionary transfer design decisions in Ottawa to

17 The Quebec transfer ratio has been calculated on the assumption that revenues arising from the Quebec abatement are considered a component of transfers, as opposed to own-source revenue.

18 British Columbia is not included among the "have nots," although it has in recent years received small per capita equalization payments.

a greater extent than is the case for provinces more reliant on own-source revenues. While transfers to Quebec averaged well below 40 percent as a share of provincial revenues, discretionary adjustments by Ottawa in transfers bearing on Quebec became a means to do battle with separatists. Arguably, transfers were less predictable and hence more destructive of fiscal discipline in Quebec than in most other provinces. If the tipping point is redefined to include Quebec as well as the four Atlantic provinces, the relevant coefficient becomes highly significant (see regression 4). The implication of this regression is that a province above the tipping point can be expected to have a provincial net debt, normalized by size of provincial GDP, of 39 percent that is 13 percentage points higher than expected debt among the benchmark group of provinces (Ontario, Manitoba, Saskatchewan, British Columbia).

The above discussion ignores more complex dynamics whereby transfers may perpetuate regional income disparities and hamper quality of governance. In many instances, reducing regional income disparities requires workers to move from low-productivity sectors (such as agriculture), usually to other regions. Such outmigration entails costs to those with fixed assets in the region. The losses involve various kinds of fixed assets: small-town businesses in which incomes depend on the size of the local population; well-paying civil service jobs the number of which depends on the size of the provincial population, and the value of a rural way of life that is diluted by outmigration. Those who face losses due to outmigration quite naturally resist. All provincial governments experience this dynamic and act as agents in federal-provincial lobbying on behalf of those with region-specific fixed assets. But as revenues from own-source tax bases decline relative to transfers from Ottawa, the importance of alternate strategies changes at the cabinet table. The exercise of intra-provincial redistribution becomes less feasible; the lobbying strategy in Ottawa looms more attractive.

Beyond the ability to realize balanced budgets, what significance does the idea of a tipping point have in considering the quality of governance? Here are several speculations.

Elections. The shift in attitudes in provinces that receive disproportionately high transfers affects individual voters as well as members of the provincial cabinet. The 1971 reforms to unemployment insurance (UI)¹⁹ introduced the principle of regionally variable eligibility; the 1995 reforms reduced eligibility for passive UI transfers and increased the incentive to train and migrate. But Atlantic Canadians had come to perceive the pre-1995 regime as an entitlement. Indeed, the 1995 reforms seem to have been the key explanation for the Liberals' loss of two-thirds of their regional caucus in the 1997 general election.²⁰ And, by all accounts, this loss explains the Liberals' relaxation of the UI reforms prior to the 2000 election — in which the party recouped nearly half its 1997 losses in the region.

In other words, a sustained, disproportionately high regional dependence on the UI program tipped regional political culture beyond the survival point for local politicians who supported the efficient 1995 reforms.

Meritocracy. In all jurisdictions, public opinion oscillates between support for spending efficiency and meritocracy in public-sector hiring, and accommodation of narrow but influential political interest groups. Atlantic Canada offers few examples of politicians' successfully swinging the pendulum toward efficiency and meritocracy. An honourable exception was Frank McKenna's government in New Brunswick. In terms of ability to lower public debt, New Brunswick significantly outperformed Nova Scotia and Newfoundland (Table 2).

Grain and Fish. The economies of Manitoba and Saskatchewan depend heavily on agriculture. Ongoing prairie drought may be producing an effect on regional political culture analogous to that of the disappearing cod stocks in Atlantic Canada. By 2001/2002, direct federal transfers as a share of each of the two prairie provinces' revenues had risen by six and nine percentage points, respectively, relative to the troughs in the late 1990s. The elapsed

19 In 1996, Ottawa changed the program's name to "employment insurance."

20 In 1993, the Liberals had elected 31 of the region's 32 MPs.

time has been too brief to permit firm conclusions, but wheat and fish have much in common in terms of their ability to induce inefficient fiscal transfers and poor governance.

Aboriginals. The impact of the Aboriginal population's lack of participation in the regional economy is acute in Manitoba and Saskatchewan, where the natives' share of the entire population is now 14 percent and their share of the under-15 population is nearly one-quarter (Statistics Canada 2003). Approximately half of the on-reserve Aboriginals in these provinces rely on welfare income disbursed by Indian Affairs via transfers to bands. Off-reserve, the Aboriginal employment rate is higher than on-reserve, but it is still disturbingly low (Richards 2004, 1-2). The lack of Aboriginal participation in the regional labour force and in provincial politics is undermining these two provinces' ability to sustain high-quality and inclusive democratic institutions. Historically, the explanation for this nonparticipation in the economy and provincial politics may be racism; the main explanation for its perpetuation now is the entitlement to on-reserve welfare, funded by transfers from Ottawa.

Conclusion

Canada does well in international comparisons of quality of governance. Some of the credit for the high rating is that Canada has, overall, designed a reasonably efficient pattern of fiscal federalism that has not eroded the culture of provincial accountability for provincial spending programs.

Yet when viewed at higher resolution, disconcerting instances of poor governance become apparent. Addressing them requires a realistic appreciation by senior governments of the destructive impact of poor tax/transfer design. In particular, Ottawa must learn this lesson with respect to transfers to small jurisdictions. At relatively minor cost to its own bottom line, the federal government can overwhelm the budgeting dynamic among such recipient jurisdictions and severely damage the quality of local governance.

My advice to those living in Canada's small political jurisdictions reliant on Ottawa's bounty boils down to a jumble of metaphors. Look Trojan horses in the mouth; they may contain Greek soldiers with golden cages.

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Comment

Michael Trebilcock

John Richards's principal thesis is that fiscal transfers may distort incentives for good government on the part of the transfers' beneficiaries and that governments are likely to perform better if they have to rely on own-source taxation (tax-spending coincidence). My reservations about Richards's analysis fall into the following three categories: (a) institutions and economic development; (b) fiscal transfers and the quality of government, and (c) "small is beautiful."

Institutions and Economic Development

The mantra of the 1980s in development circles was "getting prices right" through macroeconomic stability, trade and investment liberalization, deregulation, and privatization — the so-called Washington consensus. The disappointing experience with these prescriptions in many cases led in the 1990s to a shift of focus to second-generation reforms that focus on good governance. Many theoretical and empirical studies now find that the quality of a country's institutions — political, bureaucratic, and legal — are an important determinant of its development prospects.

That good governance is better than bad governance seems a truism. But the relationship between institutional quality and economic development leaves many questions unanswered (see Davis and Trebilcock 2001), specifically:

- Precisely which institutions and which institutional characteristics are important determinants of development?
- For countries that lack good institutions and that hence are presumably leaving big bills on the sidewalk, (the title of an article by Olson 1996), what factors explain the persistence of these institutional deficiencies?
- For countries with these chronic institutional deficiencies, what institutional reform strategies are both desirable and feasible?

I believe that these three questions are relevant to assessments of the institutions of any country, including Canada. Unfortunately, we do not have robust general answers to these questions, a lack that counsels some modesty in offering institutional reform prescriptions of the kind Richards brings to bear on Canada's current state of fiscal federalism.

Fiscal Transfers and Quality of Government

Richards's thesis — own-source taxation creates incentives for good government that are superior to those created by fiscal transfers from other orders of government — is appealing at one level. You get to spend only what you are prepared to pay for. But at another level, it begs some important questions.

First, it is not clear to me why, wherever the money comes from — taxes or transfers — per se affects incentives to spend it wisely. Presumably, citizens in spending jurisdictions have incentives to ensure that money is spent well rather than badly, *ceteris paribus*. This would cease to hold only if, applying insurance market analogies, there is market failure in the form of moral hazard or adverse selection problems. Before 1995, the open-ended transfers from Ottawa's Canada Assistance Program (CAP), as Richards argues, probably created moral hazard incentives for the provinces to enrich their welfare systems at federal expense. On the other hand, some federal policies appear to me to create moral hazard incentives for Ottawa to externalize fiscal consequences to the provinces. Examples include federal immigration policy, which externalizes welfare, housing, and settlement costs to provinces and municipal-

ities, and the Canada Health Act, which requires provincial health plans to meet certain conditions irrespective of federal contributions to the financing of these conditions. Similarly, provincial governments have incentives to download functions onto municipalities to relieve provincial fiscal burdens but with no proportionate devolution of fiscal capacity.

Second, it is not clear to me that capped and unconditional federal transfers to the provinces, such as equalization payments and the Canada Health and Social Transfer (CHST), present the same moral hazard incentives for provinces. Richards argues that transfer-dependent provinces behave disproportionately as agents to retard outmigration. Obviously, one rationale for equalization transfers — to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of taxation (sec.36 of the Canada Act) — is to provide citizens of recipient provinces incentives not to leave on account of inferior public services. But beyond this inherent incentive in equalization payments, I do not see what provincial governments can do to prevent citizens from migrating to pursue better economic opportunities elsewhere. Perhaps provinces can mute the threat of exit by failing to invest in education or vocation training programs that yield economically more valuable opportunities in jurisdictions other than the home jurisdiction, but where is the evidence of any province behaving in such a way? In fact, the most perverse policy in this respect is a federal policy: regionally differentiated unemployment insurance benefits. The political incentives for the federal government to adopt such a policy seem to rest not on fiscal externalities, but on a simple regional vote-maximizing calculus. Without the federal government's complicity in underwriting the stay option, it is not clear to me that provincial governments have inefficient incentives to retard outmigration. Indeed, as Boadway (1998) argues, equalization transfers may discourage inefficient fiscally induced migration. In similar vein, federal bailouts of distressed regional industries (or contributions to their distress in the first place) — the Cape Breton coal mining industry, the east coast cod fishery, the prairie wheat industry — seem to impede efficient interregional migration more significantly than equalization or CHST transfers to the provinces.

Small is Beautiful

Richards argues that the cooperative behaviour essential to efficient government is often more prevalent in smaller arenas than in larger ones. In the former, monitoring behaviour is easier and defaulting from a cooperative strategy is more readily noted and sanctioned.

Although this argument is often espoused as conventional wisdom, I remain skeptical. In many municipalities (for example Toronto), the quality of local politicians and bureaucrats often seems poorer than at higher levels of government. Political representation is typically not organized around coherent parties or platforms, and citizens have more incentives to vote for local ward heelers than to consider wider city or regional concerns. Moreover, it is striking that voter turnouts fall progressively from national to provincial to municipal levels of government, raising serious questions about whether voters really do monitor the behaviour of local governments more closely than that of higher levels of government.

These doubts are further heightened in the case of myriad other local bodies such as school boards, public libraries, and transit commissions, where public accountability and monitoring mechanisms seem weak to nonexistent. Voting with one's feet (exit rather than voice) may be a more effective source of discipline on local governments, a proposition that raises questions about whether recent moves in Ontario and elsewhere to force the amalgamation of many municipalities and school boards may attenuate the most effective source of discipline that citizens can bring to bear on poorly performing local governments and their agencies. Hoxby's (2000) finding that the quality of public education in the U.S. is positively correlated with the number of school boards in urban centres is suggestive in this respect.

This line of thinking raises the possibility of whether the best situation would be having small municipalities to promote more interjurisdictional (Tiebout) competition through citizens' voting with their feet, but simultaneously requiring some form of regional government to capture economies of scale and scope for some functions — such as public transit, land-use planning, and economic development — and to coordinate economic and social policies whose functional scope extend beyond particular municipal

boundaries. In Ontario's case especially, perhaps we should be prepared to reconsider a role for regional governments (such as the old Metro Toronto Council) as an alternative to municipal amalgamation, despite moves in recent years toward their abolition.

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The Canadian Dictatorship

Ronald Wintrobe

Recently, some observers of the Canadian political scene have suggested provocatively that Canada should be thought of as a dictatorship. In his recent book *The Friendly Dictatorship* (2001), Jeffrey Simpson asks if "Canada is de facto a one party state", noting that, in the last federal election, no party was capable of offering an alternative government to the Liberals. Moreover, he suggests, "The Canadian Prime Minister is more powerful within the [Canadian political] system than any democratically elected leader in other advanced industrial countries" (p. 4).

Work by University of Moncton political scientist Donald Savoie (1999a, 1999b) may have been the inspiration for Simpson's musings. Savoie focuses on the power of the prime minister within the government, rather than on the dominance of the Liberal party per se, but both Savoie and Simpson agree that the process of centralizing power in the Prime Minister's Office — a practice Savoie labels "court government" — seems to have reached its apogee under the government of Jean Chrétien.

Another way in which it has been suggested that Canada is becoming undemocratic is that the Canadian Charter of Rights and Freedoms has given unelected judges the power to make policy. In an influential book, political scientists F. L. Morton and Rainer

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Knopff (2000) suggest that Canadian policy increasingly is being made through "the Court Party," the name they give to various organizations that push their agenda through court challenges.

Can one use a model of dictatorship to understand Canadian politics? Does such a model offer any new insights into how the Canadian political system functions? To an economist, what makes a model interesting is not its exactness to real life. Economists know that the usefulness of a model is only partly related to the plausibility of the assumptions used in it. No, what makes a "model" or way of thinking interesting is if applying it yields insight.

This paper thus explores three questions. First, is there some sense in which Canada can be likened to a dictatorship? How does the supposed Canadian dictatorship compare with the functioning of real-world dictatorships such as the Soviet Union, South Korea under the generals, Saddam Hussein's Iraq, and other unsavory examples of the genre?

Second, if Canada is not a dictatorship, how can this be explained, since at the federal level, this country currently appears to lack what many take to be the *sine qua non* of democracy — namely, elections in which the ruling party faces a genuine alternative government that is capable of defeating it in the polls?

Third, are there circumstances in which Canada could become more like a dictatorship? In other words, what are the threats to Canadian democracy? I consider four possible threats, all of which have recently been the subject of internal debate among social scientists: the use of the Charter by judges to make law; the decline of trust or "social capital," both among citizens and by citizens in the government;¹ globalization; and the proximity and behaviour of the U.S.

Former British prime minister Margaret Thatcher once famously philosophized that, in effect, "There is no society, there are only individuals and the state" (as described in, for example, Clarkson 2002, 363). This view is, however, a fallacy. In fact, although democracy can be identified formally with the existence of constitutional-

1 The decline in social capital is a phenomenon much talked about recently in the U.S., most notably by Robert Putnam in his book *Bowling Alone* (2000) and generalized to other countries in subsequent work by Putnam and others — see, for example, the papers cited in Pharr and Putnam (2000).

ly guaranteed individual rights, I contend that one can understand the workings of democracy and how it differs from dictatorship only by examining the role of groups and the dynamics of group behaviour. Thus, throughout this paper, I emphasize groups and the competition among them and how they alternately sustain and threaten Canadian democracy.

The structure of the paper is as follows. In the next section, I explore the idea that the current Canadian polity resembles a dictatorship. I then continue this line of thought by trying to determine the nature of the Canadian dictatorship. In my 1998 book on dictatorships, I identify four types: tinpots, totalitarians, tyrants, and timocrats. Since each behaves differently, it is important to understand which type one has in mind in thinking of Canada as among their number. In the subsequent section, however, I finally abandon the pretense, openly acknowledge that Canada is obviously a democracy, and ask "what is it that makes Canada democratic?" given that a central feature of democracy, electoral competition, is so weak at the federal level. I then attempt to address this conundrum by identifying human rights and competition among groups as defining and nourishing features of Canadian democracy. In the next-to-last section, I explore the threats to Canada's democracy, with emphasis on the dangers posed by group pressures for conformity and the contagiousness of group behaviour. The final section is a brief conclusion.

The Natural Governing Party

To begin, let us play the game of thinking of Canada as a dictatorship. The idea is not completely ridiculous. There is a natural governing party — the Liberal Party of Canada. Much of the media is controlled, if not directly by the prime minister, as in Italy, then at least by those loyal to the Liberal Party. The Liberal-controlled media differ on who should lead the party, but in a way that is not fundamentally different from the competition for leadership that took place inside the Communist Party in the days of the Soviet Union, for example. Moreover, such opposition to the Liberal Party as exists at the federal level is fragmented and, one could argue, poses no serious electoral threat to the Liberals.

How do dictatorships work? In political science, the standard view of the difference between democracy and dictatorship (see, for example, Friedrich and Brzezinski 1965) is that dictators use the tool of repression to stay in power. Thus, dictators typically impose restrictions on the right of citizens to criticize the government, the freedom of the press, the right of opposition parties to campaign against the government, or, as is common under totalitarian dictatorships, simply prohibit groups, associations, or political parties opposed to the government. To be effective, these restrictions must be accompanied by monitoring of the population and by sanctions for disobedience. The existence of a political police force and extremely severe sanctions — such as imprisonment, internment in mental hospitals, torture, and execution — for expressing and, especially, organizing opposition to the government are the hallmarks of dictatorships of all stripes.

The use of repression, however, creates a problem for the autocrat, and this problem was the starting point of my own (1990, 1998) work on dictatorship. This is the "dictator's dilemma": the difficulty any ruler faces of knowing how much support he has among the general population, as well as among smaller groups with the power to depose him. The problem arises from the fact that the use of repression breeds fear on the part of a dictator's subjects. Because they are afraid, they are reluctant to criticize the dictator's policies. This fear on their part, in turn, breeds fear *on the part of the dictator*, since, not knowing what the population thinks of his policies, he has no way of knowing what they are thinking and planning, and of course he suspects that what they are thinking and planning is his assassination. In short, the more the dictator's repressive apparatus stifles dissent and criticism, the less he knows how much support he really has among the population. Because of this, dictators, just like democratic leaders, have to build loyal support among groups in the population, as Saddam Hussein did among certain Sunni tribes in Iraq.

Now as I write this, Uncle Jean Chrétien does not have to contend with the dictator's dilemma as far as the Canadian *public* is concerned — he knows exactly the size of the majority that is eager to see him leave office. Nor is he likely to be assassinated — that is not the Canadian way! But within the party, Uncle Jean's dilemma

is acute: party members, though emboldened recently by his formal announcement of an end to his reign, have been famously afraid to criticize his pronouncements or policies. Of course, Uncle Jean is denied the luxury of mounting a show trial, Soviet-style, in which Paul Martin is forced to confess his disloyalty and is liquidated.²

How are Canadians reacting to this struggle for control of the natural governing party? Although some are agitated, I think it is fair to say that, on the whole, Canadians are completely bored by it. Some political scientists — perhaps most famously Almond and Verba (1963) — see the public's general apathy and boredom with politics in many democracies as a sign of democratic strength. I do not, however, find this reassuring — apathy and boredom were the most notable features of the Soviet political and economic system as it entered its terminal decline.

What, in any case, is democracy? Economist Joseph Schumpeter defined it as an "institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the peoples vote" (1976, 269). Another definition, by Diamond and Plattner (2001), suggests that the minimum requisite of a democracy — what they call *electoral democracy* — is a system in which "the principal positions of political power are filled through regular, free, and fair elections among competing parties, and it is possible for an incumbent government to be turned out of office in those elections". Przeworski et al. define democracy as "a system in which incumbents lose elections and leave office when the rules so dictate" (2000, 54).³

2 By the time the reader sees this paper, Uncle Jean may have been replaced by Uncle Paul. But competition within the governing party occurs under many dictatorships, and is not necessarily a sign of democracy.

3 As opposed to the classic concept of democracy formulated by the eighteenth-century French philosopher Jean-Jacques Rousseau, who viewed it as a system that implements the "will" of the people; a relatively recent proponent of this concept is Arblaster (1987). Two of the most obvious problems with this concept are that, unless there is unanimity on a particular issue, there is no sense in which the people can be said to have a "will," and just because a dictator implements a policy that most of his people approve of (Hitler's remilitarization of the Rhineland, for example), that hardly makes such a regime a democracy.

By these definitions in common use today, Canada's current effective one-party political system would seem to fail the basic test of democracy. Of course, if Canadians really wanted to throw out the Liberals, they could certainly do so. But how? I do not have anything new to say about the structural features of Canada that have given rise to the dominance of the Liberal Party. It seems clear, however, that this dominance was considerably strengthened by the collapse of the party's historic rival, the Progressive Conservatives. The Tories' collapse was brought about by a combination of factors, including Brian Mulroney's duplicity in campaigning against free trade and subsequently implementing it;⁴ the failure of both the Meech Lake Agreement and the Charlottetown Accord, which cost Mulroney the Quebec wing of his party in the East and contributed to the rise of the Reform Party in the West; the ineffectual electoral campaign of his successor, Kim Campbell, and the return of Joe Clark as Tory leader. But the dominance of the Liberals may be exaggerated: as the section on contagion effects below amplifies, public opinion can sometimes change very rapidly.

The Northern Tiger

Given the current supremacy of the Liberal Party of Canada, what type of dictator does that make Uncle Jean? In my 1998 book on dictatorships, I define four types: *tinpots*, who rule with a low level of repression and a low degree of loyalty from their subjects, and are therefore easily deposed; *tyrants*, who rule with a high degree of repression but still only a low level of loyalty; *totalitarians*, who employ high repression and yet enjoy high loyalty; and *timocrats*, a possibly mythical type, who use little repression but survive in power because their subjects remain loyal. Of course, almost all dictators claim to be timocrats: Saddam Hussein once claimed that

4 In fairness to Mulroney, his is hardly the only example of such deceit on the part of Canadian politicians. From a mountain of possible illustrations, I note Pierre Trudeau's implementation of wage and price controls after vigorously campaigning against them. I recall the line: "Zap! You're frozen!" as he mimicked the foolishness of the policy, a line that may have come back to haunt him after he implemented that very policy.

a 100 percent vote in favor of his regime was easy to explain: The Iraqi people simply adored him!

Now, Uncle Jean obviously is not a totalitarian. Even the Liberal government does not have the machinery to put its critics in jail or torture them — at worst, the prime minister might succeed in annoying a political enemy by, say, blocking his receipt of a peerage.

Nor is Uncle Jean a tinpot. Tinpots generally are incapable of building a mass party, and the Liberal Party is a hugely successful and long-lasting organization, one of the most politically effective parties in the world today.

Is Canada a timocracy, then? As a form of government, timocracy is not merely extinct, it probably never existed.⁵

This leaves tyranny. Could Canada be like Chile under Pinochet or, even better (since that case is too confrontational to fit the Canadian image), South Korea under the generals? One positive thing about tyranny is that, of all the types of dictatorship, it is the one most likely to be good for economic growth. In this context, John Manley's recent remark referring to Canada as a "northern tiger" acquires new meaning.

Of course, the comparison is insulting. The Canadian government's use of pepper spray and tear gas to quell demonstrations can hardly be compared with that of the South Korean government when the generals were in power. But the comparison is insulting to South Korea too! Look at those growth rates!⁶ Moreover, among the most prominent hypotheses of how the various economic tigers achieved such high growth rates is the idea that the fruits of growth were *shared* (Campos and Root 1996). On this line of

5 In my book, I use the example of Rome under the reign of Marcus Aurelius to illustrate the type, based on Gibbon's idea that his reign was "the happiest time the world has ever known." Indeed, Aurelius used to say such things as "Let every action aim at the public good." See Wintrobe (1998).

6 South Korea averaged a growth rate of gross national product per capita of 8.9 percent a year from 1955 to 1975, and 13.8 percent a year from 1975 to 1985 (Kang (2002b, 41). From 1990 to 1997, South Korea's real gross domestic product grew at more than 7 percent a year, contracted by 5.8 percent during the 1998 economic crisis, but returned to growth in 1999.

thought, equality is good for growth — perhaps Canadian policy-makers could take a lesson from South Korea here.

What Makes Canada Democratic?

Of course, Canada is not a dictatorship of any kind, but one of the world's great democracies. Indeed, many of our institutions are admired around the world and often serve as models for countries that are searching for effective democratic institutions (Ignatieff 2000). But how can this be?

At the most basic level, Canada is not a dictatorship because its people are not subject to political repression. And, I believe, Canadians would vigorously resist any serious attempt to repress them. Human rights are entrenched in this country and protected by an independent judiciary. Such protections have, of course, existed for a long time, but the introduction of the Charter in 1982 seems to have strengthened many Canadians' commitment to human rights.

The Charter's most important innovation is that it explicitly spells out that the individual citizen, not government, is supreme. As Hannah Arendt shows in her monumental *The Origins of Totalitarianism* (1973), when residual rights reside in the state, rather than in the individual, mass persecution becomes possible. Even in democracies, the existence in law of the right to vote, to organize, and to participate in politics in other ways is insufficient protection if such freedoms are not specified and enforced by powers independent of government. In the otherwise democratic U.S., for example, blacks in southern states were largely disenfranchised until the civil rights revolution of the 1960s.

The introduction of the Charter reflects the "rights revolution" that has occurred in Canada, the U.S., and elsewhere in recent years, whereby political power has broadened to include new groups. Ignatieff (2000) traces the emergence of human rights on an international level to the experience of World War Two and the promulgation of the Universal Declaration of Human Rights in 1948, the first of a "spreading canopy" of laws that have altered the balance between the rights of states and the rights of individuals (p. 48).

Epp (1998) notes that, in the past, constitutional rights primarily had concerned the rights of property and contract. With the

rights revolution came the introduction of "new rights," encompassing, among others, freedom of speech and the press, free exercise of religion, prohibition of discrimination on the basis of race, sex, and other human attributes, the right of privacy, and the right to due process in law enforcement and administrative procedure (p. 7). In Canada, the Charter's effect on rights cases is evident from the fact that such cases constituted 13 percent or less of the Supreme Court of Canada's agenda before 1975 and about 60 percent by 1990 (*ibid.*, 172). In the U.S., cases involving the rights of the accused and women's rights mushroomed from less than 10 percent of all decided cases by the Supreme Court in the early 1930s to between 45 and 70 percent in the 1970-to-1990 period (*ibid.*, 28).

In my view, the Charter, in its strengthening of the rights of individuals against the state, has been an invaluable step forward in the development of Canadian democracy, and well worth the price of paying for what sometimes appears to be endless litigation over specious rights claims.⁷ I find enormously comforting the notion that someone, somewhere, is suing the Canadian government and that others are busy digging away to find new grounds for doing so. And, in the first instance, it does not even matter what the grounds are. I find it even more comforting that someone has found yet another angle to argue that their rights were violated.

In today's Russia, in contrast, although there are elections — indeed, Russian president Vladimir Putin likely faced sturdier opposition in his first election there than Chrétien did in Canada — human rights are not entrenched in any sort of legal charter. The consequences of this lack of protection are evident in all kinds of ways, including the government's willingness to close down opposition media and to harass political opponents and unpopular reli-

7 Another important reason Canada is not a dictatorship is the existence of the division of powers among different levels of government and between the elected government in Parliament and "independent" agencies such as the Bank of Canada. As Albert Breton discusses this subject in detail in his contribution to this volume, I do not dwell on it further, but pause only to note that, in real dictatorships, the first move by the governing authority typically is to remove competing "centres of power," to use Breton's phrase.

gious groups. In the Russian government's tactics to end an attack on a Moscow theatre by Chechen terrorists, its main aim seemed to be to protect the supremacy of the state, rather than the unfortunate hostages in the theatre. No plan had been put in place to treat victims among the hostages of the gas that was used to overcome the terrorists — indeed, the identity of the gas was kept secret from medical personnel for a couple of days after the incident. The government's sentiment was summarized by deputy interior minister Vladimir Vasilyev, who boasted that: "We saved the bulk of the hostages, and dealt a blow to terror." The word "bulk" aptly characterizes the attitude of a government that views its citizens as "stock" rather than as individuals with inalienable human rights. Of course, the Russian government appears to have the support of the population in its war against terrorists. That in itself is not a sign of democracy but all the more reason to entrench human rights. They are there to protect individuals not only from the state, but even when, and perhaps most especially when, the bulk of the population backs the state.

The Glory of Group Power

Human rights — and by these I mean political, rather than economic, rights — are essential to a democracy, but most individuals, acting alone, would be powerless to obtain and keep such rights. Consequently, the most effective way to secure human rights has been for individuals to organize themselves into *groups*. Scholars seem to agree that the obtaining of "new rights" was made possible not just by the arrival of the Charter, but by what Epp (1998) calls a "support structure for legal mobilization," consisting of rights advocacy organizations, willing and able lawyers, financial aid of various types, and, in some countries, governmental rights enforcement agencies. Epp puts the case for this support structure in a straightforward manner:

[O]rdinary individuals typically do not have the time, money or expertise necessary to support a long-running lawsuit through several layers of the judicial system....[A]t the level of the indi-

vidual cases, the cost of pursuing a rights case has usually exceeded any monetary award to the plaintiffs [at least in the early phases of the rights revolution] so lawyers have had little monetary incentive to take such cases on a contingency basis. Organized rights advocates, however, have developed a range of sources of support...and have made them available to potential rights claimants. (1998, 18–19.)

Thus, effective human rights owe their existence to activists who make it possible for individuals who are members of large, sometimes unorganized groups to obtain their rights. This includes groups as diverse as women, gays and lesbians, aboriginals, criminals, and those based on ethnic origin. Of course, the struggle for such rights is still not over in Canada, and to that extent this country is not yet a perfect democracy.

Competition among Groups

What do economic models say about group competition? Early work by economists at the University of Chicago — the so-called Chicago School⁸ — argued that interest group competition is inefficient because the policies such groups typically demand are inefficient and wasteful. In “rent-seeking” models such as those of Tullock (1967) or Posner (1975), it is the contest itself that is inefficient and wasteful. Becker (1983) shows, however, that democratic politics does take account of the losses from inefficient policies.

To see Becker’s point, suppose it is possible to divide the population into “winners” and “losers” from government policies. It then follows that the larger the losses from a policy, the more the groups who stand to lose by it will oppose it, and the less likely it is to be adopted. Alternatively, the smaller the gains from a policy (such as a subsidy), the less the group that stands to gain from it will exert pressure to obtain it. In this sense, then, the democratic contest is not wasteful; on the contrary, it tends to select efficient (good) over inefficient (bad) policies. Thus, as bad as many of the

8 The classic paper is Stigler (1971).

policies of the Liberal government might seem to some, in the democratic contest they won out over worse policies!

Note that competitive elections are not necessary for this result — indeed, in Becker's (1983) theoretical model, there are no elections, only interest group pressures. Rather, the necessary elements are that the pressures from both sides are taken into account, that groups that can exert more pressure are relatively successful in getting their policies adopted, and that these pressures accurately represent the relative social value of gains and losses. (I return to this last basic qualification below.)

To see the basic argument in a different way, suppose one applies this way of thinking to the case of political dictatorship. It can be seen immediately that, under such a system, the tendency for competition to select efficient policies is severely attenuated. The reason lies in the dictator's capacity to silence dissent and to repress the losers from the regime's policies — powers that are unavailable to democratic politicians. Autocrats typically ban dissenting political organizations, refuse to permit their views to appear in the media, refuse to allow them to meet or organize, and jail, torture, or even execute their leaders. This reduces the incentive for efficient policies to be adopted. For example, Saddam Hussein could have adopted policies that might have left his regime in place and even resulted in the lifting of the sanctions against it. But the losers from the sanctions were repressed and the small group of producers that benefitted from sanctions⁹ were the winners under Hussein's regime.

It is worth repeating that, for the competitive mechanism to work in Canada, the federal Liberal Party would have to be open to pressures from all the different groups in Canadian society. And it is easy to see the twofold role of the Charter here. First, and most important, the Charter prevents the Liberal Party from silencing its critics. Second, it opens up a second front (the courts) where competition among interest groups can occur. To the extent that the Liberal Party is closed to pressures from certain groups that do not form part of its majority coalition, the Charter makes it possible for

9 For details, see Kaempfer, Lowenberg, and Mertens (2001).]

the public sector to take the preferences of such groups into account. In general, the more that every group is represented in the competition for public policies, and the fairer their representation, the more likely it is that the correct policies will be adopted. If Canada were a perfect democracy, every interest group would be represented, and each group's "weight" in the allocation of public policies would represent exactly its weight in the population.

To conclude, it is worth emphasizing that, in these simple static models,¹⁰ competition among interest groups is efficient from the economic point of view. If there were a better way of allocating rights to Quebec or aboriginals or women, the political process would tend to find it. That is, the Liberal Party would leap on any solution that another political party or any other group devised that would give more in the way of group rights to Quebec at a lower cost to the rest of Canada or to aboriginals or women at a lower cost to the rest of society.

Threats to Canadian Democracy

As we have seen, competition among interest groups is likely to lead to a healthier democracy and the adoption of more efficient public policies. Nevertheless, dangers inherent in the exercise of group power can still cause things to go very wrong in democratic politics.

10 Newer, dynamic models of democratic decision making cast doubts on the efficiency of democracy in a dynamic context. The basic problem discussed in such models (see, for example, Besley and Coate 1998) is the inability of a representative democracy to commit to future policy outcomes. The question from the point of view of this paper is, of course, whether a dictatorship could be expected to do better in this respect. To my knowledge, nothing has been written on this issue, but it is worth noting the evidence in Przeworski et al. (2000) that the average life of a dictatorship is less than that of a democracy. Moreover, dictatorship does not enshrine results, but democracy does. For example, Jorge Domínguez (2001) shows that the turnaround to market friendly policies in Argentina, Chile, and elsewhere in Latin America was consolidated only when successive democratically elected regimes agreed to such a policy change. As Domínguez puts it, "Only democracy can commit to the future" (252).

*Asymmetries:**Those Left Out and Those Who Are Always In*

The basic problem with interest group competition is that, in real democracies, groups are asymmetrical. One kind of asymmetry arises when some groups are left out of the competition over public policies; another kind of asymmetry arises when some groups have much more power than others.

To see how the first kind of asymmetry works, consider that politicians are not "open" to bids from all groups but, for ideological or other reasons, tend to have long-term arrangements with certain groups. For example, it is difficult to imagine that teachers' unions in Ontario could have been important supporters of the provincial Progressive Conservatives' "Common Sense" revolution or recipients of favorable government policies, no matter how much they might have been willing to offer in terms of campaign funds. For the Mike Harris government, the teachers' unions were an "out" group. At the federal level, prisoners in federal penitentiaries were once another "out" group whom successive federal governments had deemed unworthy of the right to vote. Presumably, these governments thought more votes were to be had from excluding prisoners than from allowing them to exercise their basic democratic rights. The Supreme Court of Canada has recently, and in my view entirely correctly, restored this right.

Excluded groups sometimes take dramatic actions to demonstrate their unwillingness to live with being shut out. With normal "bidding" for political favours closed to them, their leaders may resort to theatre, to shock, to radical positions, and even to violation of existing norms in order to be heard.

Many of the groups that Morton and Knopff (2000) refer to collectively as "the Court Party" are composed of, or represent, those who have been left out or who have been disadvantaged in domestic policymaking or domestic society, including criminals, gays and lesbians, refugees, prisoners, women and aboriginal groups. In any case, Gregory Hein (2001) has produced some evidence that seems to invalidate the Morton and Knopff thesis: By far the largest number of Charter cases brought to the Supreme Court are not brought

by groups.¹¹ Yet, my guess is that the Charter nevertheless tilts toward equalizing political power *among* citizens and groups and between citizens and government. That is, in the absence of the Charter, the policymaking system would be skewed even more favorably toward the wishes of corporations and government.

This brings us to the second kind of asymmetry, which arises when some groups wield too much power. The group most often accused of this in Canada is corporations. Indeed, to the extent that corporations and government work in tandem and in secret,¹² — and aggravated by our first-past-the-post electoral system, which gives a disproportionate weight to the median voter and the majority party — Canada might remind some people of South Korea under the generals.

Recent work on South Korea illuminates the causes of the spectacular growth in that country. Oddly enough, as David Kang has demonstrated convincingly (2002a, 2002b), one of the main causes of this growth appears to be the massive corruption of the government. Not all the tigers were as corrupt as South Korea — for example, they are all over the map in their scores on the Transparency International Index. But in South Korea there was an alliance between big business (*chaebols*) and government in which the *chaebols* bribed the governing party on a very large scale. The policies pursued bore no relation to the “Washington consensus.” Of course, corruption is not unknown in Canada. But it is inconceivable that the Bank of Canada, for example, would act as the “bagman” for the Liberal Party the way the Bank of Korea did for the Democratic Republican Party of Korea (Kang 2002a, 187).

11 Of 819 claims presented to the Supreme Court between 1988 and 1998 by organized interests, 468 were brought by corporate interests. “Charter Canadians” brought 80, aboriginals 77, and labour interests 58 (Hein 2001, 223).

12 Stephen Clarkson (2002) suggests that this is how Chapter 11, on investment, of the North American Free Trade Agreement came about. Of course, the details of the deal were subsequently made public and Canadians could have repudiated it at the next election. But such deals are not so easily reversed. Perhaps, in cases where secrecy may be necessary to conduct negotiations, the electoral mechanism is inadequate as a tool to express voters’ wishes and should be supplemented by popular referendums.

Declining Social Capital, Trust, and Conformity

A now fashionable way of looking at the health of a democracy is by examining the state of "trust" — or "social capital" — among citizens and by citizens in government. Robert Putnam's work on social capital (1993, 2000) has received a lot of attention, and provides a convenient place to start our inquiry.

Declining Social Capital

Putnam believes social capital is good for both democracy and society: "Happiness is living in a society where horizontal trust is high" (1994). In *Making Democracy Work*, he argues that social capital is beneficial to the capacity to govern. In his latest book, *Bowling Alone* (2000), he deploys a battery of indicators to show persuasively that social capital has been falling steadily in the U.S. since the 1960s. The evidence for why social capital has fallen is less clear. The main reasons appear to be the influence of television and the generational change that is occurring with the passing of what Putnam calls the "great civic generation" that was born in the 1925-to-1930 period and came of age during the 1940s and 1950s. Many of Putnam's correlations are fascinating: Those who agree relatively strongly with the statement "TV is my primary form of entertainment" tend to score lower on measures of civic engagement. Such measures include the number of club meetings attended, whether the person worked on a community project, and even how often the person gave another driver "the finger" during the past year!¹³

Declining Trust

The social capital school has also discovered that, increasingly in Western democracies, no one seems to trust government any more. This

13 Putnam (2000, 216ff). Putnam's approach has been applied to other countries (see Pharr and Putnam 2000), but I have seen no detailed estimates for Canada. Note that the correlations with the TV variable for other countries are tiny (Norris, in Pharr and Putnam 2000).

decline in trust, it is implied, has caused the capacity to govern to fall even as the size of governments continues to rise (Alesina et al. 2000).

Lack of trust, in both fellow citizens and government, is a central characteristic of dictatorships. This is sometimes referred to as the "vacuum effect" between the leader and the population. To illustrate, let us look at contemporary Russia, which, though no longer a dictatorship, hardly lives up to the democratic ideal. In "A Trustless Society" (n.d.), Russian scholar Anton Oleinik reports that only 3.4 percent of the respondents to a 1999 survey thought they could trust the state. Indeed, Oleinik suggests, it was the "non-reciprocal behaviour of the state confirmed during the August 1998 crisis [that] led to a dramatic decline of the citizens' willingness to pay...taxes" (p. 22). By contrast, Canada has hardly traveled far, if at all, down this undemocratic road: as Inglehart reports (1999, 102), Canadians continue to trust each other to a remarkable extent.¹⁴

Declining Conformity

Another problem with groups, related to trust, arises from their internal dynamics. In groups in which the individual member's welfare depends positively on the average level of effort or participation, each member has an incentive to "free ride" on the contributions of others. Group leaders typically try to counter this behaviour. Many leaders of extremist groups deliberately alienate the group's members from the rest of society, hoping thereby to increase their participation in and dependence on the group. Religious sects and cults, for example, often try to limit the information available to members in an attempt to control them and their association with outsiders (see Knoke 1990, 71).

Mainstream ethnic groups often practise such strategies to control their members as well, so that, *within* ethnic groups, there is often great pressure to conform. Accordingly, one of democracy's

14 Inglehart shows that Canada and the Nordic countries rank among the highest in the world in terms of the level of interpersonal trust that exists among their citizens.

great virtues and responsibilities is to protect the rights of individuals against group pressures of this kind. Pressures like these were most apparent in Yugoslavia under Milosevic. Some think it would be impossible that what happened there could ever take place in Canada. Ethnic groups in Canada do not try to wipe each other out as they did in Milosevic's Yugoslavia. But it is worth remembering that Yugoslavs are not necessarily warlike, that indeed that Serbs and Croats lived in peace there for many years and that there was no overt nationalism in Yugoslavia. Instead it exploded, because nationalism can be contagious.

Perhaps this point about group pressures on individuals suggests a different explanation for Putnam's evidence about the decline of solidarity in the U.S. It is worth recalling, after all, that what Putnam labels "the great civic generation of the 1950s" was noted also for its conformity. The 1950s witnessed little in the way of attempts to break up discrimination against blacks. The year 1947 saw the release of the movie *Gentleman's Agreement*, which described the process by which Jews were excluded from the mainstream of U.S. society. American society presented a homogeneous front, it was preoccupied with the fight against communism, and dissent or alternative lifestyles were not particularly welcome.

Solidarity, to some degree, has now returned to U.S. society in the wake of 9/11 and the appearance of a new external threat. It is hard to argue, however, that the phenomenon has been healthy for that country's democracy. Putnam (2000) refers to Alexis de Tocqueville as a "patron saint" for the way in which he spoke, in his classic 1835 work, *Democracy in America*, about Americans' proclivity to join associations; however, de Tocqueville also described America as "the most conformist society he had ever seen." In my view, conformity and the proclivity to join associations are related.

Today, the man in the grey flannel suit has been replaced by the "imperial CEO," to use Paul Krugman's phrase,¹⁵ and the CEO's backstabbing underlings. It is hard to be salutary about the decline of trust in the workplace, but I do not see the decreased faith in authority as a threat to democracy. Moreover, the increased liti-

15 In the *New York Times Magazine*, October 20, 2002, p. 64.

giousness in Canada as a result of the Charter appears to me to be a "good thing," to use Martha Stewart's phrase.

Contagion

Another property of social capital that gives us further insight into the role of groups is that social capital is contagious. As with any other form of what economists call a "network externality," the greater the stock of social capital, the more valuable it is to the individual using it. In this, social capital is like computer software: the larger the number of computer users that have it, the more valuable the program is to each individual, and the more any individual will want it and be willing to take steps to preserve it.

This property of contagion is particularly important in politics, where genuine information is weak and the incentive to collect it is diminished by the free-rider problem. That ideas and political support are contagious is evident from the common occurrence of fads or bandwagons, which can be explained in terms of the desire for social cohesion. People often adopt a social idea or join a political movement just to be "in" — that is, in the vanguard, or at least a part, of the group or movement promoting the idea, however useless or illogical. No really good case has ever been made on esthetic, medical, or logical grounds for the hula hoop in the 1950s, the tie-dyed tee shirt in the 1960s, disco culture in the 1970s, the backward baseball cap in the 1980s, or tongue jewelry nowadays.

In the same way, the more everyone else seems to favor Paul Martin as the new leader of the Liberal Party, the more any individual tends to favour it as well. On the other hand, the contagion property means that the Liberals' hold on power might be more tenuous than is evident, since, in the world of politics, small events can lead to the public's loss of confidence and a massive turning away from the party, as the federal Tories discovered.

Surely, one might object, where there is a lot of social capital, as Putnam suggests there is in Canada, should this not act as a bulwark against instability? On the contrary, there is some evidence that the more social capital there is, the more *unstable* the polity becomes. The classic example is Germany of the Weimar Republic.

Hitler's rise has often been blamed on the "atomized" nature of German society, in which few individuals were members of groups or voluntary associations. In fact, the opposite was true: Weimar Germany was rife with horizontal associations, displaying plenty of Putnam's (2000) social capital.¹⁶ Indeed, in the spirit of social capital, many of these groups, encouraged by their leaders, joined the Hitler movement *as groups*. And these were not necessarily groups of the ill-educated, easy prey for those with simplistic and vicious political ideas: among the first to declare their loyalty to the Nazi Party were the medical doctors.

It follows that, paradoxically, the more social capital there is, the greater is the demand for constitutional protections in the form of checks and balances. The reasoning of Madison and others in *The Federalist Papers* about the design of the U.S. Constitution is an important illustration of this idea. Madison and his adherents made the case for a constitution on the grounds that, without one, passions would lead to instability. One large source of instability was said to be bandwagon effects, especially under the influence of the wrong kind of political leaders. Hence, Madison, said, "it is the reason, alone, of the public, that ought to control and regulate the government. The passions ought to be controlled and regulated by the government."¹⁷ The U.S. Founding Fathers were especially worried about demagoguery: the notion that citizens could be "misled by the artful misrepresentations of interested men," or by the "wiles of parasites and sycophants, by the snares of the ambitious, the avaricious, the desperate."¹⁸

As far as the contemporary U.S. is concerned, this reasoning shows why the decline of social capital in that country could have been so precipitous as it appears in Putnam's charts: since it is contagious, once it starts to decline the process sets up expectations that are self-fulfilling. Applying this reasoning to other problems and to other societies shows that the role of social capital is com-

16 See Wintrobe (1998) and references therein.

17 James Madison, *The Federalist Papers* 49, p. 317; quoted in Page and Shapiro (1989, 57).

18 *The Federalist Papers* 71, 432; quoted in Page and Shapiro (1989, 56).

plex.¹⁹ Thus, in Russia, the fall of the communist system left lots of social capital, now unconnected to the communist hierarchy, and these connections gave birth to the oligarchic capitalism and weak democracy of contemporary Russia. The same type of phenomenon allowed Slobodan Milosevic to pit one ethnic group against another and launch four wars in order to sustain his rule in post-communist Yugoslavia.

Globalization, Group Dynamics, and U.S. Power

Do other potent forces threaten Canadian democracy? What about globalization and U.S. dominance? In fact, to some extent, these two forces act in opposition. Thus, globalization is largely driven by the U.S. and its institutions (Friedman 1999). But globalization also makes it easier for small countries such as Canada to build coalitions with other countries against the U.S. (Clarkson 2002). Similarly, globalization reduces the domestic power of Canadian corporations to threaten democracy. And globalization ties the hands of the prime minister and his government in many ways. Conversely, within Canada itself, one could argue that the strength of the Liberal Party makes it easier for Canada to resist U.S. demands. And nothing appears to build solidarity better among Canadians than anti-Americanism.

Space does not allow me to sort out all these complex forces, though some things do stand out. First, globalization is creating supranational institutions to which sovereign countries are ceding

19 The most successful solution to a social problem that I know of also originates with the contagion property of groups — namely, the “fixing broken windows” approach to crime prevention first applied in the New York Transit Authority, and subsequently implemented in the rest of New York City. Indeed, “zero tolerance” might be worth trying as a solution to problems of political and corporate corruption. But racial profiling and other stigmatizing policies that were later adopted in New York are obviously antidemocratic. And they contradict the spirit of the “fixing broken windows” approach, which emphasized the importance of having the community onside in fighting crime (see Kelling and Wilson 1982; Kelling and Coles 1996). Indeed, perhaps the closest life in Canada could get to life under a dictatorship would be if people were arrested for no other reason than their skin colour.

power. For Canada, one of the most obvious examples is the North American Free Trade Agreement. Democracy is particularly threatened, however, when such agreements contain provisions inserted at the insistence of some groups but not agreed to by others. (On the upside, supranational organizations can also act as a check on the overwhelming power of the United States.)

Second, globalization increasingly enables companies to diversify their production internationally. As economists see it, globalization is increasing the elasticity of demand for labour — that is, jobs are becoming an employers' market — as companies find it easier to substitute foreign labour for domestic labour (Rodrik 1997). In so doing, globalization can undermine domestic bargains that make it possible for various groups to live together. The consequence is the withdrawal of dissatisfied groups from these understandings and the undermining of solidarity or social cohesion. Within the individual corporation, globalization detaches the chief executive officer from other parts of the firm and inflates executive salaries. Put differently, and more simply, both these factors imply that the demand for trust is falling within companies.

Globalization thus appears to be reducing solidarity, or trust, within society. To better understand the ramifications of this phenomenon, let us look more carefully at how solidarity is built. Broadly speaking, there are three ways to generate group solidarity. The first way is through *mechanisms that ensure equality among the group*, such as common pensions or medicare. The more everyone receives exactly the same treatment, the less energy individuals in the group will expend trying to increase their own advantage at the expense of the group and the more they will expend seeking benefits for the group. Of course, free riding limits the extent to which an individual works for the group's advantage, but a substantial literature shows that there are various ways to overcome the free-rider problem, including mobilizing individuals through networks and social ties, group leadership, and the promise of rewards from successful action.²⁰ If such incentives are offered at a

20 See, for example, Opp and Hartmann (1989); Uhlaner (1989); Chong (1991); Morton (1991); and Shachar and Nalebuff (1999).

constant rate, more equal treatment within the group leads to greater solidarity and more effort directed at group goals.

Second, group solidarity will also increase as *barriers to entry into and exit from* the group become higher. The harder it is to leave the group, the more members will be motivated to ensure that the group works well. The more membership is restricted, the less members will feel that opportunistic joiners will dissipate any improvement in the group's fortunes. Thus, the peculiar solidarity of ethnic groups arises from the fact that entry into, and often exit from, the group are essentially blocked (Wintrobe 1995). Other groups find other ways to limit entry, such as obfuscating the way the group works to outsiders by the use of in-group rituals, signals, and symbolism, making it more difficult for members to interact pleasurably with outsiders and raising the value of interaction among the group.

Third, and most notoriously, group solidarity is built through *struggle against an external enemy*, a kind of group *jihad*, to borrow the Islamic term. Solidarity tends to increase with the size of the perceived outside threat to individuals in the group.²¹

To summarize, group solidarity can be raised by mechanisms to ensure equality, barriers to entry and exit, and struggle against an external enemy. It follows that, if one of these methods becomes more costly to use, one or both of the others will be substituted for it. The particular threat globalization poses is that it reduces the capacity of groups to generate solidarity by using equal-treatment mechanisms or by raising barriers to entry and exit. As the use of these two methods declines, demand for greater group solidarity through struggle against an external enemy increases. Thus, as Benjamin Barber argues in his prescient book, *Jihad vs McWorld* (1995), globalization (McWorld) and jihad are not necessarily opposing forces: in some ways, McWorld stimulates *jihad*.

Jihad is the greatest threat to democracy. *Jihad* tends to make the large group behave like the small group and crushes internal dif-

21 I leave it to another occasion to consider the individual rationality of such a response. After 9/11, however, it is particularly hard for North Americans to maintain that it does not exist.

ferences. It is a favorite tool of dictators, but its use is not limited to them. Some might argue that George II's enormous tax cuts for rich Americans,²² even as income inequality in that country reaches heights not seen for more than 60 years (Krugman 2002), tend to fray internal solidarity at the edges, making the need to find an external enemy greater than ever. Canada and the European welfare states tend to build solidarity by providing such benefits as pensions, medicare and unemployment insurance. To the extent that the U.S. has fewer or less well funded programs of this kind, there is considerably more inequality and real poverty in that country (Alesina, Glaeser, and Sacerdote 2001). The welfare state, one could argue, thus protects democracy by insulating a country's citizens against the desire for *jihad*.

The process of globalization, which to some extent spreads the U.S. values of small government and flexible labour markets (Friedman 1999), makes it more difficult for other countries, such as Canada, to sustain different systems. In the face of globalization's impact, the loss of the ability to differ might encourage such countries to adopt the *jihad* mechanism in response to their citizens' demand for more group solidarity.²³ It may be no accident that the previous peak of globalization occurred just before World War One.

Conclusion

Despite what sometimes appears to be the Liberal Party's near-monopoly on federal power, Canada is not a dictatorship. Human rights are entrenched in Canada, most notably by the Charter of Rights and Freedoms, and Canadians enjoy a free press. Moreover, the federal government must compete for political power with the provinces and even municipalities. Most important of all is the role groups play in obtaining, maintaining, and enhancing individual

22. More than half of the 2003 tax cuts will go to the richest 1 percent of U.S. families (Krugman 2002, 77).

23. Other ways might be found to strengthen solidarity than the ones discussed here, and substitutes other than *jihad* might be found. But these three seem to be the main ones. For more details on this subject, see Wintrobe (2002).

rights and freedoms. If all groups are properly represented, group competition is efficient in that it results in government's adopting the best policies. Under a dictatorship, by contrast, competition among groups is weak, as those that oppose the government's policies are typically repressed. Still, the strong hand remains alluring to some, and perhaps never more so than when a "little bit" of dictatorship might be thought good for economic growth or fighting terrorism.

The functioning of groups is not always salutary. Indeed, the greatest danger to democracy lies in the pressures for conformity that are characteristic of the internal workings of groups — terrorist groups often illustrate this trait precisely. More dangerously still for democracy, conformity is contagious.

Canadians should never take their democracy for granted but should seek ways to enhance it. Toward that end, I think, first, that it is worth paying the price of occasionally spurious litigation to spread political rights more equally among citizens. From this point of view, the Charter is the best thing that has happened to Canadian democracy. Second, I believe that understanding the role and behaviour of groups is vital to understanding how democracies work. The glue that binds groups makes it possible for individuals to obtain their rights, thus strengthening democratic forces in a society. But that glue can also strengthen authoritarian forces and threaten a stampede to dictatorship.

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Comment

Tom Flanagan

Ronald Wintrobe, citing chiefly the fact that there now seems no plausible alternative to the federal Liberals as a governing party, plays with the idea that Canada might be considered a dictatorship. The Liberals, however, have been in power for only 11 years — hardly a long stretch of power in a parliamentary system. In my own province of Alberta, the Progressive Conservatives have been in power since 1971; before that, Social Credit governed without interruption for 36 years (1935-to-1971). Throughout this period, Alberta has had a one-party-plus system, in which a governing party — Social Credit or Progressive Conservative — has confronted two or more opposition parties that could elect members to the legislature but rarely threatened to topple the government.

Despite its lack of recent experience of the alternation in government that is said to be the great virtue of a two-party system, Alberta is, according to the pro-free-market outlook of the C.D. Howe Institute, a paragon of good government. The province ranks at or near the top of all the obvious indices: smallest debt, lowest taxes, lowest unemployment rate, highest credit rating, lowest rate of welfare dependency and most favourable climate for investment.

In a broader perspective, the two-party alternative-government model that Wintrobe seems to postulate as a democratic norm is actually quite rare in the real word of democracy. As I show at length in a recent publication (Flanagan 2002, 23), that model is, in fact, the least common of the following five types of party systems found in modern democracies:

The two-party alternative. In this system, although other parties may be able to win some seats, only two parties have a realistic chance of winning elections, alternating fairly frequently in forming a government. Examples include the United Kingdom after the Second World War and New Zealand until the introduction of proportional representation in 1996.

Alternating coalitions. Here, one or both of the governing entities is a coalition rather than a single party, as in the cases of Australia since the 1920s and France's Fifth Republic (since the late 1950s).

One-party-plus. In this system, one party wins almost all the elections and governs alone or with minor coalition partners. The opposition is divided among two or more parties, as in Sweden and Japan.

Consensus government. In these situations, all governments are coalitions, with several participants. Change after elections usually means only a rearrangement of portfolios or perhaps the addition, subtraction, or replacement of one coalition partner. An example is the Netherlands.

Power-sharing. All major parties share in government all the time, as in Switzerland and the United States. (The U.S. case is somewhat obscured by its presidential system, but little gets done without the mutual cooperation of Democrats and Republicans, albeit in varying proportions determined by the results of the most recent election.)

Empirical evidence shows that all five models can work well. Who is rash enough to say that the United Kingdom, New Zealand, Australia, France, Sweden, the Netherlands, the United States, and Switzerland are not admirable democracies? All have flourishing economies and an enviable record of protecting civil and political rights. Of course, each can be justifiably criticized for something or

other from someone's point of view, but let the country that is without sin cast the first stone.

Canadian alarmists should get a grip on reality. If Canada has entered a one-party-plus phase, that does not mean that democracy is dead or threatened, only that for a time it will work in a different way. Even if only one party governs, opposition parties can still force the government to deal with new ideas. Any government that ceased to take its opposition seriously would soon find its pre-eminence threatened, as any corporation would if it failed to respond to a threat to its market dominance from upstart rivals.

Wintrobe ignores this line of thought, though he concludes that Canada is not a dictatorship because the Charter and the courts allow disaffected groups to achieve their objectives against or outside the government's control. He is right in a sense, but too narrow in his analysis. Dictatorship is prevented because Canada's Constitution uses the following tools to prevent arbitrary power from being concentrated in a single pair of hands:

The rule of law and judicial review. The courts can declare acts of both the legislature and the executive to be *ultra vires* and, hence, unenforceable. This power existed long before the Charter, but the Charter has strengthened it.

Representative government. Under this system, certain classes of office holders must be elected by the people and periodically submit to re-election.

Federalism. Under Canada's system, power is divided between federal and provincial jurisdictions, so that no single team of politicians controls everything.

Bicameralism. At the federal level, both the Senate and the House of Commons must approve legislation. Although the Senate is usually compliant toward the government-dominated House of Commons, it is not always. Recall that the Senate rejected the Mulroney government's abortion bill and frustrated the Chrétien

government's attempt to cancel the Pearson Airport expansion without paying compensation.

Separation of powers. Under Canada's monarchy, the Crown appoints heads of government, can dismiss them, and must assent to all legislation. These powers are much weaker than they used to be, but the Crown still holds them and might play a significant role in a political emergency.

Responsible government. This governmental system requires that the cabinet maintain a working majority in the popularly elected legislature. Governments can and do fall on confidence votes when their caucus splits (as in the Diefenbaker government in 1962) or when they are in a minority (as the Trudeau government was in the early 1970s and the Clark government in 1979). More often, though, they draw back from the brink and do not push measures that might lead to their defeat.

To be sure, bicameralism and the separation of powers are much weaker tools than the original constitutional designers intended them to be, and the rise of party discipline has vitiated responsible government. Because of such trends, one might, as Donald Savoie (1999) does, detect an evolution toward dictatorship, though in the bigger picture, they have been more than offset by the growth of provincial powers under federalism; the rise of judicial activism in a post-Charter universe, and the enhancement of representative government through the expansion of the franchise, the emergence of organized political parties and the efflorescence of the mass media.

In fact, the government of Jean Chrétien, though devoted to old-fashioned patronage and influence peddling, was not dictatorial in its approach to policymaking. It borrowed or inherited many of its major policies from its opponents: low inflation, privatization, free trade, and the goods and services tax from the Progressive Conservatives; balanced budgets, lower taxes, and a tougher response to Quebec separatism from Reform and the Canadian Alliance. At the same time, the Chrétien government

was remarkably hesitant about many of its own initiatives: A new Citizenship Act was introduced for the fifth time in the fall of 2002, the Species at Risk Act still had not been passed at the time of writing, and no detailed plan for implementing the Kyoto Accord was produced, even though the government endorsed it in 1996.

None of this is to deny that certain aspects of Canadian government badly need fixing. For example, our appointed Senate is an embarrassment, and I believe that only individuals, not corporations or labour unions, should be allowed to contribute to political parties. But I do not see an overall crisis of democracy in Canada. The system creaks along as it has for decades, needing (and sometimes getting) improvement in certain areas, but performing not too badly by any reasonable standard of world politics.

Of course, the Liberal government pursues many policies of which I deeply disapprove, such as a government monopoly of health insurance, expensive regional, industrial, and aboriginal subsidies, and unemployment insurance that creates powerful disincentives to work. But I see these as examples of bad ideas in action, not as the result of defective institutions. They would probably emerge from any set of democratic institutions as long as Canadian public opinion and political culture are what they are. Without dismissing the importance of improving our institutions, I believe the most important task for would-be reformers is the laborious task of changing public opinion and political culture, rather than dreaming of quick victories through institutional change.

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Comment

Gebhard Kirchgässner

Is Canada a dictatorship? Coming from Switzerland and being asked whether Canada is a dictatorship, my first answer undoubtedly is No! A second somewhat more cautious answer could be: It might be; there exists a dictatorship of the ruling political class in Canada which is not tamed by direct popular rights. But in this case probably all Western democracies except Switzerland could be classified as dictatorships because no other country has (at least to such a large extent) direct political rights at the national level. In this case, the term 'dictatorship' might nearly lose its meaning.

After reading Ron Wintrobe's clearly written and very stimulating paper and recognising that his reason for asking this question is the fact that (for about 10 years) there was no alternative to the governing Liberal Party available, I have to ask myself whether — according to this criterion — Switzerland is not also a dictatorship. The composition of the federal government remains unchanged since 1959. Since then, the Magic Formula holds that: The Swiss government consists of two Social Democrats, two Christian Democrats, two Liberals and one member of the (today right-wing oriented) Swiss Peoples Party.¹ They hold today 173 of the 200 seats in the lower house, the Nationalrat, and all but one

1 There might be a slight change in the composition sometime within the next years. Due to changes in the strength of the parties the Swiss Peoples Party could gain and the Christian Democrats could lose one seat.

single seat in the upper house, the *Ständerat*.² Moreover, all members of the federal government are effectively elected for life: Aside from rare occasions where government members have been forced to resign (mainly by their own party), it is up to them when they decide to withdraw. Thus, Switzerland might be a dictatorship even more than Canada.

A statement that both countries might be dictatorships is unconvincing, however, for at least for two reasons. For one thing, as we know from other areas, it is much less the (effective) contest itself, but the (potential) contestability which matters. And this undoubtedly exists in Canada. Even when it seems that it is hardly possible that any other single party or coalition can win a general election, the Liberals might experience the same defeat as the Conservative Party at the beginning of the 1990s if they behave as badly as they did. Secondly, in Switzerland the mandatory referendum for any change of the federal constitution, the optional referendum for any new law or change of an existing federal law, and the initiative for constitutional amendments enable the people to be a very effective opposition. Thus, even if there is collusive behaviour of the politicians, the citizens have the possibility to prevent the government or parliament from taking measures which are against the people's interests.

In his paper, Ron Wintrobe gives rather different reasons why Canada is not a dictatorship: (i) Basic human rights are guaranteed, and (ii) There is competition between interest groups. These are two important elements of modern liberal societies, but I have some doubts that they are sufficient to prevent Canada from becoming a dictatorship. At least, they do not rule out the possibility of a timocracy in the sense of R. Wintrobe (1998). To show this,

2 This constellation did not change during the last decades. Because any federal law is subject to an optional referendum, the government always has to try to get a large majority in the parliament in order not to risk a rejection in a referendum. This leads to the inclusion of all important parties in the government. Thus, the real opposition is not the parliamentary opposition but the citizens. On the other hand, because of this large majority the single members of the parliament are free to decide according to their consciences; there is no disciplinary pressure from the party leaders.

I will discuss the competition of pressure groups and, in a somewhat more detailed manner, the problem of basic human rights. I come to the same conclusion as Ron Wintrobe that Canada is not a dictatorship, but for somewhat different reasons.

Competition of Pressure Groups

There is no doubt that interest groups play an important role in every modern society. Moreover, the right of the citizens to build up and join interest groups should — from a normative liberal point of view — be restricted as little as possible. On the other hand, as Ron Wintrobe himself writes, the working of interest groups is not always salutary; it might even be dangerous for democracy. Interest groups can promote change by, for example, fighting for rights of minorities, but using their blocking power they can also hinder change, even if it would be deeply necessary for the development of the society. A prominent example are the British trade unions after the Second World War; it was necessary to reduce their power considerably in the Thatcher era to make the British economy function efficiently again.

Correspondingly, modern political economy knows two different approaches to analyse the impact of interest groups. As mentioned by Wintrobe, the Chicago School, especially G.S. Becker (1983, 1985), points to the efficiency gains which can be reached by the activities of interest groups. On the other hand, the Virginia School, in this respect most prominently G. Tullock (1967), emphasizes the social waste which might be the result of rent-seeking activities. Moreover, M. Olson (1982) demonstrates the sclerosis which might result from distributional coalitions formed by interest groups in old societies, that is, when interest groups had the possibility to build up their positions in society over a long period of time.

The truth might be somewhere in between. There can be efficiency gains and losses. Interest groups play a necessary function in a democracy, but they can also be detrimental for the political, as well as the economic process. Moreover, we also observe activities of interest groups in some autocratic regimes. Consequently, I have

some difficulty in seeing why the fact that there is competition among interest groups should be one of the two major reasons why a political system is not a dictatorship.

Basic Human Rights

The main reason, however, why — according to Ron Wintrobe — Canada is democratic is the guaranty of human rights: "At the most basic level, Canada is not a dictatorship because the people are not subject to political repression here.... In other words, human rights are entrenched here, and protected by an independent judiciary." Thus, it is not the possibility of changing the government, as argued by J. Schumpeter (1942), but the rule of law or, to use a German expression, the *Rechtsstaat*, which makes Canada democratic.

I am far from denying the importance of a *Rechtsstaat* for the functioning of a modern society, but I think that it makes sense to distinguish two different concepts: democracy and the rule of the law. Of course, these two concepts are closely connected, and the modern constitutions of Western democracies contain both elements. If political participation rights, which are undoubtedly a key element of democracy, are seen as belonging to the rule of law, as well, the rule of law might imply democracy. But, first of all, one can question this, and secondly, then democracy still does not imply that the rule of law holds. An obvious example might be that in democratic regimes taxation might erode property rights or, more generally, that a majority of voters might exploit a minority. And, as high (especially income) tax rates in many countries show, this is not only a theoretical possibility.

That this really is (or, at least, can be) a problem can be demonstrated first by the fact that economists quite often demand restrictions on the scope for democratic (majority) decisions, as well as for those of special interest groups, in particular trade unions. The most prominent example is F.A. Hayek with his distinction between liberalism and democracy and especially his polemics against the latter,³ describing nearly all existing democratic regimes as socialist ones. He explicitly stated that he would prefer

3 See, for example, F.A. Hayek (1960).

to live in a community with an autocratic regime where the rule of law, especially the common law, would hold and private property rights would be secured, rather than in a democratic society where the majority has the possibility to interfere in his private domain.⁴ Moreover, many people prefer — for whatever reasons — to live in a (foreign) country where they have no political participation rights at all. Probably most of them would not stay there if the rule of law did not hold.

More interesting, however, is the fact that we have historical examples of an autocratic *Rechtsstaat*, Prussia in the 19th century, and of a democracy with a very limited rule of law, Switzerland in the same period, which can be used to demonstrate the difference between the two concepts.

After the Napoleonic wars and the reforms of Freiherr Karl von Stein and Karl August von Hardenberg, Prussia became a *Rechtsstaat*. If people felt that their rights were violated by the bureaucracy, they could go to court to obtain their rights. On the other hand, Prussia at that time was anything but a democracy. The government was only responsible to the king, not to the parliament, and there were three classes of citizens with different electoral rights according to their income. Nevertheless, there was strong loyalty from many of the ordinary people to the king. Thus, following the distinction of R. Wintrobe (1998), this kind of government might be called timocracy. The Prussian *Rechtsstaat* probably played a role as a substitute for the democratic participation rights which had been withheld.

This holds despite the fact that in the second half of the 19th century, Prussia was quite aggressive against its neighbouring countries and started wars against Denmark, Austria and France. Thus, one should not glorify this system. Still, looking at it from the rule of law point of view it came quite close to the system Hayek would prefer to a democratic system.

Another country, Liechtenstein, might move in this direction. Initiated by the prince, there is an initiative underway to give him

4 See the citation in R.J. Arneson (1993, p. 145). A similar position is taken by R.J. Barro (1996, p. 2).

veto power over all important decisions, including changes to the constitution, to existing laws, as well as to the appointment of judges. Thus, it would no longer be a constitutional monarchy like Britain or the Benelux and North European countries, where the monarch has very limited power.

An example of the opposite situation, which is a democracy with a very limited role for the rule of the law or — to use Hayek's words — a democracy which is rather unlimited, would be Switzerland. That country still has no real constitutional court. Because Switzerland has signed the European convention of Human Rights it is possible to go to the European Court of Human Rights in Strasbourg if such rights are violated. There is, however, no possibility to go to any court if a federal law violates the federal constitution; the Federal Court in Lausanne acts only as a constitutional court if cantonal laws might violate the federal constitution. Recent attempts to increase its role as a constitutional court met strong resistance in parliament and have very low chances to win the mandatory referendum once the national parliament proposes a corresponding change of the federal constitution.

This situation can hardly be understood without looking at the Swiss historical background, especially in the 19th century. In a situation where the people of a canton come together as free and equal persons in a general assembly, the *Landsgemeinde*, where they decide their common matters, it does not make sense to go to court if a decision is taken against one's preferences. When in 1848, after the civil war, the modern Swiss federal state was founded, the cantons were the important centres of power. They gave limited power to the central authorities, and there was no chance that a central authority would have been accepted which did not have democratic legitimacy. This situation is still in effect; many Swiss citizens see direct popular rights as a better substitute for a constitutional court system. Thus, not only theoretical reasoning but also historical evidence tells us that democracy and the rule of the law are two different principles which should be discussed separately. As mentioned, this does not deny that both concepts are important elements, in fact the most important elements, of modern liberal societies, and both are to be enforced. On the other hand, it should be noted that there is at least some trade-off between these two

principles because democratic decisions might interfere with private property rights.

Concluding Remarks

If we make the distinction between these two concepts, Ron Win-trobe's explanation of why Canada is still a democracy and not a dictatorship is no longer fully convincing. This does not deny that most of what he has written is convincing and that most of the points he is raising are valid ones. Finally, it is a matter of definition what the key elements of a democracy are. If we accept the distinction between democracy and the rule of law, it makes sense to define the former as a political system which provides basic political participation rights and ensures that the political outcome is not too far distant from what might be called the 'will of the people'.⁵ To ensure this, there are at least two possibilities:

- Rules which make it possible to get rid of incompetent and malevolent politicians and,
- Possibilities of direct interference if the political decisions of the elected representatives go in the wrong direction.

Most countries, such as Canada, rely mainly or even exclusively on the first one, which has been emphasized, not only by J.A. Schumpeter (1942), but also by K.R. Popper (1945), while Switzerland mainly relies on the second one. Nevertheless, as already mentioned, because it is less the actual change than the possibility of a change (or the contestability) which is important, it is clear for me that Canada is not a dictatorship but a democracy. The fact that at the turn of the Millenium there seemed no alternative to the Liberal Party should not be overstated. The collapse of the former Conservative Party in 1993 indicates that even a dramatic and

5 Following the ideas of D. Black (1948) and A. Downs (1957), economists often identify the median voter's position with the will of the people. This does, however, not always have to be the case, especially not with respect to multi-dimensional problems.

unexpected change can occur quite rapidly. It is similar to the situation of large companies in a quasi-monopolistic situation: Wrong decisions of the leading party/company can provide new opportunities to competitors and change the situation within a few years, provided the rules of the game are fixed and not at their disposal. Thus, there might be a demand for reforms of the Canadian political system, which I am not the right person to discuss, but I can see no reason to call Canada a dictatorship. Thus, for somewhat different reasons I can follow Ron Wintrobe's conclusion.

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Comment

J. Stefan Dupré

I find it useful to remind myself of the conference's title, "Who Decides?", particularly after hearing John Richards's remarks, provocatively entitled "Gilded Cages and Trojan Horses."

A few months ago, we all received a memorandum from Richard Bird suggesting that we might wish to consider the implications of globalization for the development of Canadian political institutions. My comment follows that suggestion by selecting a feature of globalization — the knowledge-based economy (KBE) — as a case study in Canadian federalism that Richards chose not to explore. In the KBE, universities and their research hospitals, where past federal financing aroused provincial anxiety and, for Quebec, the choice of opting out, have come to be viewed as sources of wealth-creating ideas, intellectual property, and corporate spin-offs as well, as purveyors of trained graduates and basic research.

Who decides? Enter, in 1997, the unilateral federal initiative called the Canada Foundation for Innovation (CFI). Here is a deliberately designed arm's-length body that Richards would probably call a super-QUANGO (quasi-non-governmental association). It features 15 members whose role is designated as "similar to the shareholders in a corporation." Six members were appointed by Ottawa and they elected the other nine. The initial task of these 15 was to elect eight CFI Directors. The remaining seven, including the board chair, were federal appointees.

Initial financing for CFI involved an endowment of \$800 million that has since grown from successive injections, to \$3.5 billion. Deeming it important to avoid commitments that would raise the level of annually appropriated government spending and steer the

federal budget off its future course, the Department of Finance assembled CFI's endowment from lump sums left over at fiscal yearend, an approach known as pre-booked spending. Going back to the year 1215, would King John have been pleased to finance his wars out of an endowment from year-end leftovers? I leave this question dangling at the same time as I laud Richards for the depth of his historical perspective and observe that the federal auditor general has not been amused.

I set aside other federal KBE initiatives, ranging in the university realm from the Canada research chairs to the Millenium Scholarship Fund, so that I can stress, in the limited space available, CFI's centrality to the reinvention of government in Canadian federalism. Long-discredited conditional matching grants are alive and well — but with a different vocabulary. Spending has become investment. Grantors and grant recipients have become partners. And the partners are not only governmental but also philanthropic and commercial organizations. The CFI matching formula ratio is 40:40:20.

Who decides? No province has decided to opt out. Most provinces provide their 40 percent matches through operating ministries. Ontario and Quebec have each decided to create super-QUANGOs of their own. Take the Ontario Innovation Trust (OIT) with its seven-member board of directors, only three of whom are named by the government. Take Valorisation Recherche Québec (VRQ) with a nine-member board that is composed of three university appointees, three private enterprise appointees, and, *ex officio*, the presidents of the three provincial research councils. OIT and VRQ, like CFI, live in the shadow of explicit auditor general reservations.

The remaining 20 percent of the funding begets behaviour on the part of universities that is nothing if not entrepreneurial as they dangle the carrot of 80 percent capital-facility discounts. Philanthropists can have their names adorning a major building (for example, the Bahen Centre at the University of Toronto) for 20-cent dollars. A commercial enterprise, robust or otherwise (for example, Nortel), can gain similar recognition for an identical financial effort.

Rediscover in this setting what Richards said about have-not provinces and their transfer dependency. Atlantic universities confront cash-strapped provincial governments and relatively impecunious private sectors. Predictably, the Atlantic Canada Opportunities Agency, established in 1987 to promote industrial development, acquired in 2000 an Atlantic Innovation Fund with \$300 million to invest "in the region's innovation infrastructure, particularly Atlantic universities and research institutions." As a lifelong cynic on the subject of electoral reform, may I observe that proportional representation, which might well beget an Atlantic party among whatever other new parties it might spawn, appears hardly necessary to sensitize Ottawa to Canada's easternmost region?

I leave this question hanging as I observe that the KBE has generated a remarkable federal-provincial consensus that research universities and their hospitals are potential anchors for so-called clusters of innovative activity. Such U.S. examples as San Diego and Boston have made clusters the flavour of the year in both Ottawa and provincial capitals. A recent prime ministerial paper titled *Achieving Excellence* sets as a Canadian target 10 internationally recognized clusters within the next eight years (Canada, 2002).

Who decides? The good news is that all three of our conference subtitles come into play: not only federalism but also democracy and citizen empowerment. What governments appear to have grasped is that clusters cannot be implanted by federal-provincial fiat. Entrepreneurial activity, if it happens at all, will happen from the ground up. So, more than 30 town hall meetings, composed mainly of private-sector participants, often under the chairmanship of local mayors, were convened on the way to a mammoth national summit. Away with the long-repeated assertion that federal-provincial relations freeze private individuals and local officials out of governmental processes. "Participation" joins clusters as the flavour of the year.

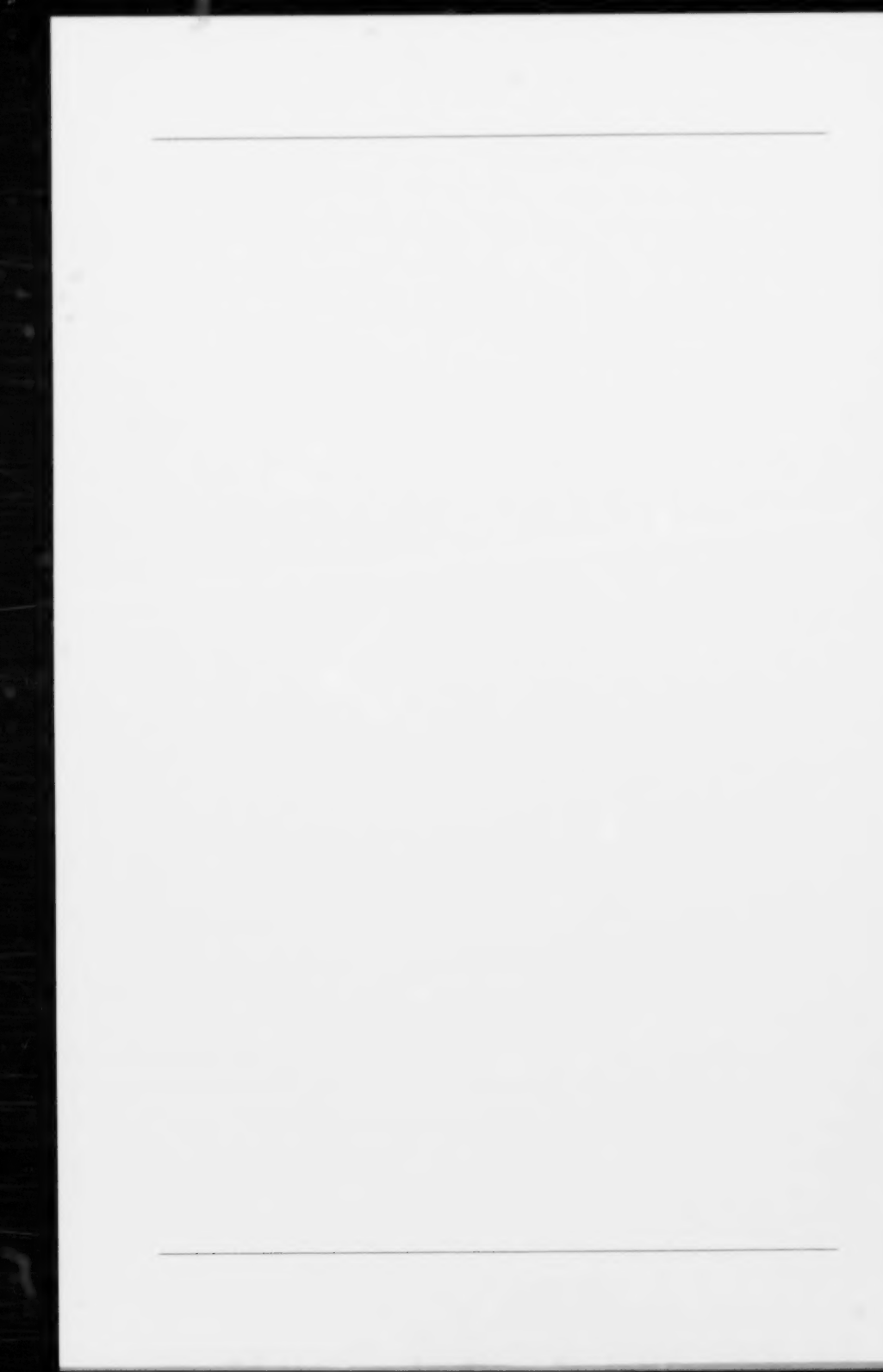
What is the bad news? Many knowledgeable experts consider that 10 internationally recognized clusters in eight years is an unattainable target. So if there were to be five internationally recognized clusters, where might they be? Ottawa seems closest to the mark. Then Montreal? Toronto, or is it Waterloo? Vancouver, or is it Victoria? Edmonton, or is it Calgary? A handful of other commu-

nities — St. John's, Halifax, Saskatoon — might be candidates for what I would call mini-clusters. Meantime, grassroots participation has aroused expectations — with what political consequences if they are dashed? Try enhanced cynicism as the answer.

I have another comment about universities across-the-board. It is inspired by David Cameron's lead article in a recent issue of *Canadian Public Administration*. Federal-provincial consensus, super-QUANGOs, endowments raised from pre-booked spending, and the carrot effect of federal and provincial matches on corporate and private giving will produce a clearly differentiated university sector in which perhaps 10 institutions emerge as truly entrepreneurial research universities. In Richards's vocabulary, these will be the gilded cages of the KBE. Others will experience goal displacement as the Trojan horse of semi-entrepreneurial activity drives out teaching and research. Meantime, all institutions of higher learning suffer from a shortage of core funding that has driven faculty-to-student ratios from 14.8 to 18.9 in the last 10 years. Some may call these ratios productivity gains; others, like me, are glad they have retired and have no children of university age. Should universities, whether of the gilded-cage or the Trojan-horse variety, consider jointly appealing to the citizenry for core support through a television advertising campaign similar to the one now being mounted by the provinces for federal health-care funding? Like all entrepreneurial behaviour, this course would entail risk of failure, but the magnitude of this risk could be gauged by recourse to the social science inventions called focus groups and public opinion polls, and to the firms that have commercialized them.

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The Contributors

Timothy Besley is Professor of Economics and Political Science and Director of the Suntory Toyota International Centres for Economics and Related Disciplines at the London School of Economics. Educated at Oxford University, he taught at Princeton before joining the LSE. His research is mainly in the fields of economic development, public economics and political economy. He is a Fellow of the British Academy and of the Econometric Society. He is currently a co-editor of the *American Economic Review* and a past managing editor of the *Economic Journal*.

Richard M. Bird is Professor Emeritus, Department of Economics, and Adjunct Professor and Co-Director of the International Tax Program at the Joseph L. Rotman School of Management, University of Toronto. He currently holds appointments as Petro-Canada Scholar in Economic Growth and Innovation and Fellow-in-Residence at the C.D. Howe Institute, and Distinguished Visiting Professor at the Andrew Young School of Public Policy, Georgia State University. He has served with the Fiscal Affairs Department of the IMF, been a visiting professor in the United States, the Netherlands, Australia, and elsewhere, as well as serving as a frequent consultant to the World Bank and other national and international organizations. He has published extensively, especially on the fiscal problems of developing and transitional countries.

Albert Breton received his BA from Collège de St. Boniface, University of Manitoba, Fort Gary, and his Ph.D. in Economics from Columbia University. He has taught at the Université de Montréal, Carleton University, Université Catholique de Louvain, The London School of Economics, Harvard University, the Università di Perugia, the Université de Paris I (Panthéon-Sorbonne), the Institut de Sciences Politiques de Paris, and the Institute for Social and Economic Change (Bangalore, India). He is currently Emeritus Professor of Economics in the Department of Econom-

ics, University of Toronto and Research Professor in the Dipartimento di Economia, Università di Torino. From 1970 to 1979, Professor Breton was Special Advisor to Prime Minister Trudeau.

J. Stefan Dupré has been a professor of political science at the University of Toronto since 1963, and has served as a chairman and member of more than a dozen provincial and federal councils, commissions and task forces. He chaired the Royal Commission on Matters of Health and Safety Arising from Use of Asbestos in Ontario. In Ottawa, he has been a member of the National Research Council, and the Social Sciences and Humanities Research Council of Canada, among others. In 1958, he received a Ph.D. in political economy from Harvard University.

Tom Flanagan received his Ph.D. in political science from Duke University. He has taught at the University of Calgary since 1968. In academic circles, he is best known for his books on Louis Riel, Metis land claims, and aboriginal rights. He took a leave from the university to manage Stephen Harper's two leadership campaigns as well as the Conservative Party's national election campaign of 2004. He is a member of the Royal Society of Canada.

Robert P. Inman is the Richard K. Mellon Professor; Professor of Finance, Business and Public Policy, Real Estate and Economics, The Wharton School, and Senior Fellow, Leonard Davis Institute of Health Economics. Professor Inman, who received his Ph.D. in economics from Harvard, is also a research associate of the National Bureau of Economic Research. He has served as a consultant to the city of Philadelphia, the State of Pennsylvania, CitiGroup, Chemical Bank, the U.S. Department of the Treasury, and the Financial and Fiscal Commission of the Republic of South Africa, among others. His research is currently focused on fiscal federalism, the urban fiscal crisis, and the political and legal institutions of fiscal policymaking.

Gebhard Kirchgässner is Professor of Economics and Econometrics at the University of St. Gallen, and Director of the Swiss Institute of International Economics and Applied Economic Research at the

University of St. Gallen. He is also President of the Economic Advisory Board (Commission pour les questions conjoncturelles) of the Swiss government. He is a member of the German Academy of Natural Scientists Leopoldina, Economics and Empirical Social Sciences Section and President of the European Public Choice Society.

Hon. Donald S. Macdonald, P.C., CC. was first elected to the House of Commons in 1962. He served as MP for Toronto-Rosedale for 16 years, nine of them as Minister in the Cabinet of Pierre Trudeau, holding, in succession, the portfolios of: Government House Leader, Minister of National Defence, Minister of Energy, Mines and Resources, and Minister of Finance. From 1982 to 1985, Mr. Macdonald was Chairman of the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission), and from 1988 to 1991 he was High Commissioner for Canada to the United Kingdom. He is currently Senior Advisor, Public Policy, to the law firm of Lang Michener.

Preston Manning was a Member of Parliament from 1993 to 2001. He founded two new political parties — the Reform Party of Canada and the Canadian Reform Conservative Alliance — both of which became the official Opposition in the Canadian Parliament. Mr. Manning served as Leader of the Opposition from 1997 to 2000 and was also his party's critic for Science and Technology. After retiring from Parliament in 2001, Mr. Manning became a Senior Fellow of the Fraser Institute and the Canada West Foundation. He is also a Distinguished Visitor and lecturer at the University of Calgary and the University of Toronto. In 2002, he released a book *Think Big* (McClelland & Stewart) describing his use of the tools and institutions of democracy to change Canada's national agenda.

Kenneth J. McKenzie is a Professor in the Department of Economics at the University of Calgary, where he has taught since 1992, following two years at the University of Toronto. He received his B.Comm. from the University of Saskatchewan (1982), his M.A. (Economics) from the University of Calgary (1985), and his Ph.D. (Economics) from Queen's University (1990). He spent two years (1984-to-1986) as an economist in the Tax Policy Branch of the federal Department of Finance. Kenneth McKenzie specializes in pub-

lic economics, with an emphasis on taxation and political economy. He is the EnCana Scholar in Public Policy with the C.D. Howe Institute.

Alain Noël is Professor in the Department of Political Science of the Université de Montréal and Director of the Centre de recherche sur les politiques et le développement social (CPDS), at the same institution. He is the author of several studies on federalism and on social policy in Quebec and in Canada. In recent years, he has also acted as an expert consultant for the Quebec government and served as a member of the province's Commission on Fiscal Imbalance. During the academic year 1997/1998, he was Visiting Scholar at the School of Social Welfare and John A. Sproul Postdoctoral Fellow in Canadian Studies at the University of California, Berkeley. In 2004/2005, he was a visiting scholar at the Université de Grenoble.

John Richards grew up in Saskatchewan and served as a member of that province's legislature during the first term of the Blakeney government from 1971 to 1975. For the first two years of his term, he was legislative secretary to the minister of health. In mid-term, he crossed the floor and sat as an independent socialist. In his words, he has "since mellowed and rejoined the NDP." Trained as an economist, he currently teaches in the business faculty at Simon Fraser University. He has written on resource policy, labour relations, and public policy.

Michael J. Trebilcock is Professor of Law and Director of both the Law and Economics Program and the Centre for the Study of State and Market at the University of Toronto. He specializes in Law and Economics, International Trade, and Contract and Commercial Law. He has served as National Vice-President of the Consumers' Association of Canada, Chair of the Consumer Research Council, and Research Director of the Professional Organizations Committee for the government of Ontario. From 1982 to 1986, he was a member of the Research Council of the Canadian Institute of Advanced Research, and in 1987 he was elected a Fellow of the Royal Society of Canada. He is a Research Fellow with the C.D. Howe Institute.

Ronald Wintrobe is Professor of Economics at the University of Western Ontario. He is the author of numerous articles in economics and political science journals, as well as editor or co-editor of nine books, including *The Political Economy of Dictatorship* (Cambridge University Press 1998) and, most recently, *Political Extremism and Rationality* (Cambridge University Press 2001, co-edited with Albert Breton, Gianluigi Galeotti and Pierre Salmon). Currently, he is putting the finishing touches on a new book, *The Political Economy of Extremist Groups*.

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Who Decides?

Government in the New Millennium

Richard M. Bird Editor

Many more people than ever before now live in some form of democracy and have at least some say in how they are governed. Meanwhile, as in the past 350 years, the most important political institution everywhere remains the nation-state. At first glance, little seems to have changed in the basic structure of political democracies.

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